

APRIL 11TH–17TH 2009 Economist.com

Banyan, our new column on Asia

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How to waste less water

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Activist investors retreat

"Today, the cold war has disappeared but thousands of these weapons have not. In a strange turn of history, the threat of global nuclear war has gone down, but the risk of a nuclear attack has gone up. More nations have acquired these weapons. Testing has continued. Black markets trade in nuclear secrets and materials. The technology to build a bomb has spread. Terrorists are determined to buy, build or steal one... Some argue that the spread of these weapons cannot be checked–that we are destined to live in a world where more nations and more people possess the ultimate tools of destruction. This fatalism is a deadly adversary. For if we believe that the spread of nuclear weapons is inevitable, then we are admitting to ourselves that the use of nuclear weapons is inevitable... So today, I state clearly and with conviction America's commitment to seek the peace and security of

a world without nuclear weapons.

I'm not naive. This goal will not be reached quickly–perhaps not in my lifetime. It will take patience and persistence. But now we, too, must ignore the voices who tell us that the world cannot change." BARACK OBAMA, PRAGUE, 2009

Saturday April 11th 2009

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Print edition April 11th 2009

A world without nuclear weapons
A nuclear-free world may never come about, but there can be safety in trying: leader



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Politics this week

Apr 8th 2009
From The Economist print edition

Defying calls not to, **North Korea** launched a rocket that it said put a communications satellite into orbit. America and other countries believe the launch was in fact a test of a Taepodong-2 missile, capable of carrying nuclear warheads as far as Alaska, but that it failed, falling into the sea beyond Japan. Efforts to persuade the UN Security Council to issue a strong condemnation of the launch proved difficult; China and Russia backed North Korea's explanation, and said it was within its rights. Meanwhile, Barack Obama proclaimed that America had a "moral responsibility" to lead a campaign to rid the world of nuclear weapons. See article

Najib Razak was sworn in as **Malaysia's** prime minister, promising far-reaching reform to revive the government's popularity.

Cambodia and **Thailand** again exchanged gunfire on their border, around the disputed temple of Preah Vihear. Thailand said at least two of its soldiers had died. Cambodia's prime minister, Hun Sen, sought to play down the fighting as a dispute between neighbours.

Sri Lanka's army said it had driven Tamil Tiger rebels from all the territory the group once controlled, apart from a small coastal area designated a "no-fire zone" by the government. Aid agencies continued to express concern about the safety of as many as 150,000 civilians prevented from leaving by the Tigers. See article

Richard Holbrooke, America's envoy to **Afghanistan** and **Pakistan**, and Admiral Mike Mullen, chairman of the joint chiefs of staff, visited Pakistan. President Asif Zardari told Mr Holbrooke that Pakistan was fighting for its survival. Just before the visit, at least 40 people died in three suicide attacks in different parts of the country, blamed on Islamist extremists. See article

Climbing Jacob's ladder

AP



South Africa's prosecuting authority dropped all charges, including those of fraud and racketeering, against Jacob Zuma, who heads the ruling African National Congress. The path is thus cleared for him to become the country's president after an election on April 22nd. The decision raises fears that the judiciary's independence may be weakening under political pressure. See article

According to a London-based research institute, 2008 was the deadliest year ever for **aid-workers**; 122 were killed and 260 attacked. The most dangerous countries to work in were Somalia and Afghanistan.

Somali pirates took advantage of improved weather conditions at sea and stepped up their attacks on foreign ships. They seized six vessels within a week, including a freighter with 21 American crewman on board about 450km (280 miles) off the Somali coast.

Israel's hawkish new foreign minister, Avigdor Lieberman, said that Western-backed efforts to make peace between Israel and the **Palestinians** had reached a dead end.



Tour de force

Barack Obama completed his whirlwind tour of Europe in **Turkey**, before paying a flying visit to Baghdad. The American president promised the Turkish parliament that America was not at war with Islam. He also urged the European Union to admit Turkey. See article

At the **NATO** summit in Strasbourg and Kehl, Denmark's prime minister, Anders Fogh Rasmussen, was

chosen as the alliance's next secretary-general. France formally rejoined the military-command structure, and Albania and Croatia joined NATO. See article

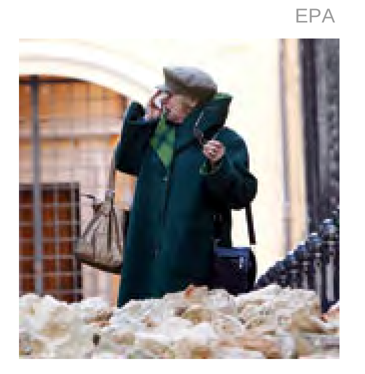
Spain's prime minister, José Luis Rodríguez Zapatero, shuffled his cabinet, replacing the long-serving Pedro Solbes as finance minister with the public-services minister, Elena Salgado. Financial markets, usually respectful of Mr Solbes, were fretful. See article

Crowds of students and fellow protesters violently attacked **Moldova's** Parliament after the Communist Party won a general election, which the protesters say was fraudulent. See article

Ireland brought in an emergency budget to raise taxes and cut spending so as to curb its mushrooming budget deficit. The government expects Irish GDP to shrink by 8% this year.

An earthquake around L'Aquila, a mountain town in **Italy's** central Abruzzo region, killed at least 250 people and left 17,000 homeless. See article

EPA



Presidential term

After a 16-month televised trial, a court in **Peru** convicted Alberto Fujimori, the country's president from 1990 to 2000, of authorising an army death-squad that killed 25 people during efforts to crush a Maoist insurgency, and for the brief kidnap of two opponents. He was sentenced to 25 years' imprisonment. See article

In a crackdown against opposition leaders in **Venezuela**, the recently elected mayor of Caracas was stopped by police from delivering a letter to the National Assembly protesting against a bill that would strip him of most of his powers. A former defence minister, once a close ally of the president, Hugo Chávez, was jailed. See article

A delegation from the black caucus of the United States' Congress met **Cuba's** president, Raúl Castro, in Havana. The visit came as Barack Obama was expected to announce the scrapping of curbs on visits and remittances to the island by Cuban-Americans, ahead of a Summit of the Americas at which some Latin American governments are expected to press for Cuba's readmission to the Organisation of American States.

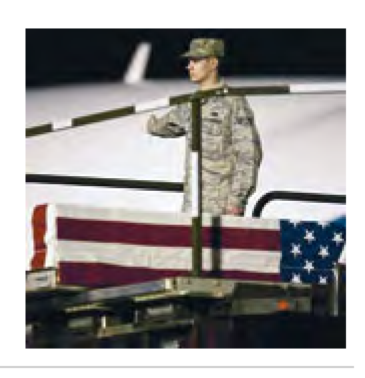
Love your fellow man

Iowa and Vermont became the latest American states to legalise **gay marriage**. Iowa's Supreme Court ruled that a state ban on same-sex marriage was unconstitutional and violated the rights of gay couples. In Vermont, lawmakers overrode the governor's veto of a bill, making it the first state where gay marriage is made legal by a legislative act and not by a court decision. See article

A **gunman** opened fire at a centre for immigrants in Binghamton, in upstate New York, killing 13 people before committing suicide. The gunman, Jiverly Wong, came to America from Vietnam as a young man and had taken English lessons at the centre.

The Pentagon allowed the media to cover the ceremony at the bringing home of a fallen **American serviceman's** body for the first time since Mr Obama overturned a ban imposed in 1991. Phillip Myers was killed in Afghanistan. Journalists recorded the return of his coffin at Dover air force base in Delaware after his family gave their consent.

Reuters



Business this week

Apr 8th 2009
From The Economist print edition

Pundits continued to ponder the communiqué issued by the members of the **G20** at the end of their summit in London. The agreement's main points include a promise of more money for the IMF, taking its funding to $750 billion; an increase in countries' access to Special Drawing Rights, the IMF's synthetic currency; a promise to crack down on tax havens; and the establishment of a Financial Stability Board. The G20 members also committed themselves to supporting $250 billion-worth of new global-trade guarantees and gave assurances they would put a freeze on new protectionist measures. See article

Ford announced that after a successful debt-for-equity swap programme it had reduced its outstanding automotive debt by $9.9 billion, from $25.8 billion at the end of last year. General Motors and Chrysler are negotiating with their lenders and bondholders to reduce their debt in order to avoid bankruptcy.

Sour charity

New York state's attorney-general accused Ezra Merkin, a hedge-fund manager, of placing clients' money with **Bernard Madoff** without telling them. There was no suggestion that Mr Merkin, a prominent Manhattan philanthropist, who invested money for many non-profit organisations, including New York University, knew Mr Madoff was running a Ponzi scheme.

Indian police widened their investigation into alleged fraud at **Satyam Computer Services**, one of India's biggest technology companies, arresting three executives in its finance department for an "active role" in the crime. Satyam's chairman resigned in January after admitting he had overstated profits and hidden liabilities at the company.

The European Commission sent a "statement of objections" to **Visa Europe** (a separate entity to Visa) regarding the transaction fee paid by retailers' banks to the banks of their customers. Europe's antitrust regulators are pushing for change at big credit-card companies, accusing them of acting as a cartel when setting fees. The commission recently reached an agreement with MasterCard to reduce its fees on cross-border payments.

Berry good

Research In Motion's quarterly earnings cheered investors. The BlackBerry-maker's profit rose by 26% compared with a year ago, to $518m, and revenue soared by 84%. It added a net 3.9m subscribers, bringing the total number of those who use the popular e-mail device to 25m.

A judge in Hong Kong ruled that Richard Li, the chairman of **PCCW**, had done nothing wrong when he handed out shares to investors ahead of a vote on his buy-out offer. Shareholders at the telecoms company voted in favour of Mr Li's proposal, but Hong Kong's Securities and Futures Commission insists his actions affected the outcome.

The Pentagon proposed capping purchases of **Lockheed Martin's** F-22 fighter jets and said it would cancel orders with the company to supply VH-71 presidential helicopters. The programme would have cost taxpayers $13 billion.

PartyGaming reached a settlement with American authorities, agreeing to pay $105m to avoid prosecution for providing online-gambling facilities to American residents. The company, which has its headquarters in Gibraltar, was a darling of the London Stock Exchange after a share offering in 2005, but in October 2006 Congress passed a law that clamped down on internet gaming and PartyGaming's share price slumped.

Counting the toll

America's **unemployment** rate rose to 8.5% in March, its highest level in 25 years. More than 5m jobs have been lost since the recession started in December 2007.



A big drop in producer prices and retail sales in the **euro area** caused some analysts to predict that the European Central Bank will loosen monetary policy further. On April 2nd the ECB reduced its main interest rate by a quarter of a percentage point, less than expected, to 1.25%.

HSBC reported that existing shareholders had responded well to its rights issue and bought 96.6% of the shares on offer; the remainder were sold in the market. The bank, one of the few global financial institutions not to request state aid during the crisis, raked in $18.5 billion in new capital through the public offering.

Royal Bank of Scotland said it would cut 9,000 jobs worldwide. Meanwhile RBS's remuneration report was rejected by 90% of shareholders at the annual meeting. The report included Sir Fred Goodwin's contentious annual pension of £700,000 ($1m). The bank's former boss, whose aggressive approach to cost-cutting earned him the nickname "Fred the Shred", resigned when the bank had to be bailed out.

KAL's cartoon

Apr 8th 2009
From The Economist print edition

Illustration by KAL



Getting to zero

Safe without the bomb?

Apr 8th 2009
From The Economist print edition

A nuclear-free world may never come about, but there can be safety in trying

Denis Cameron Rex Features



IF HE had hoped his vision of a world free of nuclear weapons would rally universal support for America's new cause, Barack Obama's disappointment came all too quickly. North Korea's pre-emptive, missile-guided raspberry on April 5th—hours before President Obama outlined his nuclear-free dream in Prague—had long been expected from a regime that treats rule-breaking as a national pastime. Its boss, Kim Jong Il, claims his latest rocket launched a satellite that is now warbling back patriotic songs from space. Others say he tested a nuclear-capable missile that flew about 3,200km (2,000 miles) before plopping into the Pacific (see article). The disappointment came hours later when China and Russia blocked all rebuke of Mr Kim at the UN Security Council, saying he had a right to a space programme, even though a UN resolution supposedly bans his missile work.

Such unhelpful politicking is merely one measure of the challenge in "getting to zero". Mr Obama acknowledged that his nuclear-free vision may not be realised in his lifetime. Sceptics would add his children's lifetime too. Partly to reassure nervous allies who depend on America for their protection, he also made plain that, as long as nuclear weapons exist, America will keep an effective deterrent of its own.

So isn't the visionary Mr Obama just sloganeering? At worst, isn't this the sort of nuclear-free-but-not-yet ruse that all five officially recognised nuclear powers—Russia, Britain, France and China too—can use to hang on to their bombs?

Safety can come before zero

Nuclear weapons cannot simply be wished away or uninvented. The technology is over 60 years old and the materials and skills needed are widely spread. Still, by infusing his idealism with a dose of realism Mr Obama can do more to create a safer world than simple "Ban the bomb" slogans ever could.

For zero nukes would make no sense if this left the world safe for the sorts of mass conventional warfare that consumed the first half of the 20th century. How many bombs would be needed to prevent that? And with what co-operation and controls to keep these remaining weapons from use? It is hard to say what sort of nuclear future would be more stable and peaceful until you get a lot closer to zero. Happily, the difficult steps needed to get safely to low numbers would all be needed for zero too. Mr Obama's

vision is helpful if it gets people thinking about imaginative ways forward.

Mr Obama is already committed to using the goal of zero to shape his future nuclear plans. Both America and Russia still have far more nuclear warheads than either wants. Even George Bush, no dewy-eyed disarmer, negotiated cuts down to 1,700-2,200 apiece by 2012 (from the 6,000 agreed upon after the cold war had ended) and was ready to go lower. Encouragingly, Mr Obama and his Russian counterpart, Dmitry Medvedev, have agreed that a modest cut will accompany new weapons-counting rules to be fixed by the end of the year, with more ambitious reductions to follow. All the official five except China have been trimming their arsenals too.

But other nuclear dangers are growing. As more governments look to civilian nuclear power as a source of clean electricity, tighter controls and other new schemes are needed to help stop would-be cheats or terrorists from exploiting or stealing some of the proliferation-prone technologies and materials for bomb-building. The cheats include not just North Korea, which left the Nuclear Non-Proliferation Treaty (NPT) and exploded a bomb of its own, but also Iran (in the treaty but defying UN calls to halt its suspect nuclear work), Syria and others. The run-up to next year's five-yearly NPT review conference offers a chance to bolster the fraying anti-proliferation regime. But even some non-nuclear NPT members in better standing than the likes of Iran have been resisting. Unless the official nuclear powers take steps to uphold their side of the NPT bargain that obliges them to work towards abolishing their nukes in exchange for keeping others from seeking the bomb, this opportunity could be lost. The treaty could unravel.

Warhead-chopping is not even the hardest part. Mr Obama says he will resubmit the Comprehensive Test-Ban Treaty to the Senate for ratification (it was rejected in 1999 in a highly partisan vote), something Mr Bush refused to do. He also wants to jump-start long-stalled negotiations on a verifiable treaty to end the production of fissile material for military uses. But Mr Obama on his own cannot will success on either front. Others, not just America, need to change their ways too.

A treaty-backed ban on testing is in America's interests. Many other countries have already signed it. China would probably ratify the ban if America does. But Pakistan won't accept a test ban unless India does (both, like Israel, are nuclear-armed but outside the NPT), and without them and belligerent North Korea the treaty cannot take full effect. Similarly, the effort to ban making more fissile material for bombs was last stymied by Iran and Pakistan; India officially supports this ban, knowing that others will do the blocking for it.

The hazards ahead

Such is the disarmament minefield of today. Navigating a future world of much lower nuclear numbers presents new hazards. As America and Russia get close to 1,000 warheads each, they will want Britain, France and China to put their smaller arsenals on the negotiating table too. Britain has always said it will, China and France have not. And what about India, Pakistan, Israel and others?

As numbers drop, allies will wonder if America's nuclear umbrella can still stretch far enough. Missile defences, a bone of contention today between America and both Russia and China, will be needed to bolster confidence against unexpected threats. But how to negotiate them and deploy them in ways that do not undercut nuclear stability?

Mr Obama is right. This and more are the work of decades. The world may never get to zero. But it would help make things a lot safer along the way if others act in concert. If North Korea and Iran can keep counting on the protection of China and Russia in their rule-breaking, progress will be all too slight.

America, Europe and Turkey

Talking Turkey

Apr 8th 2009
From The Economist print edition

America's public call for Turkish entry into the European Union may backfire

AP



BY CHOOSING to end his grand tour of Europe in Ankara and Istanbul this week, Barack Obama fulfilled his pledge to visit a Muslim country during his first 100 days in office. He took the opportunity of his address to the Turkish parliament to reaffirm that America was not at war with Islam (see article). But his visit was also testimony to Turkey's strategic importance for the West as a whole.

That reflects partly geography, partly geopolitics. As Mr Obama pointed out, Turkey is a natural bridge between Europe and the Middle East. Its potential as an energy transit corridor to Europe was again made obvious during January's gas dispute between Russia and Ukraine. Turkey has the chance to play a pivotal role in the troubled Caucasus region, especially if its current efforts to repair relations with Armenia succeed. Militarily, Turkey has NATO's biggest army after America's, and hosts a large American airbase at Incirlik. Recently its prime minister, Recep Tayyip Erdogan, has also engaged robustly in Middle Eastern diplomacy, mediating between Syria and Israel, talking to Iran and keeping a beady eye on the aspirations for self-rule of the Kurds of northern Iraq.

Turkey matters for another reason too. It is a working example of a secular democracy in a Muslim country. It would be wrong to present it crudely as a model for the Muslim—especially the Arab—world to follow. Turkey's history and geography make it a special case. But it does help disprove the widespread belief that Islam and overtly Islamist political parties must always be incompatible with a functioning democracy.

Almost since it first came to power in 2002, Mr Erdogan's mildly Islamist Justice and Development (AK) Party has been under attack from Turkey's secular Ataturkist establishment, particularly the generals. Yet although AK suffered a setback in recent local elections, the prime minister and his party have retained broad support among voters. And they have largely, if not always consistently, stuck to the path of liberalising reforms that passed a milestone in December 2004, when Mr Erdogan triumphantly secured a date to open formal negotiations for Turkey's membership of the European Union.

Those negotiations have not been going smoothly. The obstacles to Turkish membership are numerous and as large as Turkey itself. Public opinion in many EU countries is less than welcoming. The French president, Nicolas Sarkozy, has loudly and repeatedly made clear that he is against Turkish membership; so, less vociferously, has the German chancellor, Angela Merkel. A settlement of the long-drawn-out Cyprus dispute is anyway an essential precondition for Turkish entry. Troublingly, partly in response to Europe's perceived lack of enthusiasm, Turks' appetite for more reforms to fulfil the EU's terms of entry has waned. Public opinion in Turkey has recently taken on a noticeably anti-American and anti-European tinge.

From Brussels, not Washington

Given all this, it is understandable that Mr Obama repeated America's view that the EU should admit Turkey. Yet it was a tactical mistake. The EU's leaders (not only Mr Sarkozy) do not take kindly to outsiders telling them publicly who should join their club—any more than Mr Obama would like to be told by Europeans that he should throw open the United States' border with Mexico. They must be persuaded on the merits of the case, not by lobbying that might make Turkish entry seem like an American idea. Above all, they need to believe that the Turks themselves are prepared to make changes at home to qualify. Turkish membership of the EU is, at best, many years off. Keeping it on the table is the job of political leaders in Brussels and Ankara, not Washington.

The G20 and the IMF

Banking on the fund

Apr 8th 2009
From The Economist print edition

The IMF is getting more resources to support the world economy. If it is to succeed, it needs more reform

IT IS easy to be cynical about the recent G20 summit in London. There was lots of hoopla, but there were no new, substantial remedies for the global slump, whether in the form of co-ordinated stimulus or comprehensive plans to clean up banks. So the world's leaders diverted attention with an old formula: bandying around big but squishy numbers and blathering about the importance of international institutions.

Even by the standards of global summitry, the G20 communiqué was pretty brazen. It crowed about a "concerted fiscal expansion" of $5 trillion by the end of 2010, as well as $1.1 trillion in "additional resources" through international institutions like the IMF. The $5 trillion figure seems to be an estimate of how much public finances could deteriorate by the end of 2010—not exactly the same as a planned fiscal boost. And the $1.1 trillion is even slipperier. Not only is $1.1 trillion of financing for international bodies not the same as $1.1 trillion of extra spending, the sum itself is inflated. As for the $250 billion of "support for trade finance" that the politicians said they would "ensure", it is unclear where this will come from (see article). The amount of additional public money promised in London was a small fraction of that.

The much-touted tripling of the IMF's resources from $250 billion to $750 billion is, for now, more an aspiration than a done deal. So far, only about half the extra money has been pledged, much of it long before the London summit. The main source of new cash from the G20 gathering was a promise to create $250 billion of Special Drawing Rights, the IMF's quasi-currency. That will add to global liquidity by boosting countries' reserves. But since most of the SDRs will sit in the coffers of the world's biggest economies, they will do less to support demand than the headline figures suggest.

Nevertheless, the fatness of the figures does suggest that the world's leading emerging and rich economies are serious about bulking up the IMF (see article and article). That is a huge shift from the recent past, when the fund seemed to be fading towards irrelevance. After the emerging-market crises of the 1990s many rich countries were keen to scale back the fund, for fear that a big IMF would tempt poor countries to run reckless policies. Emerging economies were determined never to suffer its tough lending conditions again. Such countries, especially in Asia, preferred to insure themselves against the fickleness of capital flows rather than risk having to ask for the fund's help, and built vast stashes of foreign exchange. Along with a crass mercantilism, this desire for self-insurance fuelled America's asset bubble and helped produce the conditions for today's bust. Left alone, that cycle could repeat itself. Since those countries with the biggest stashes, notably China, have most room to boost spending in this crisis, other emerging economies might easily conclude that self-insurance is their best bet.

The G20 pledges have the potential to stop that drift. With more cash the fund will be able to cushion the collapse in global demand, by allowing countries from which private capital flees to cut spending by less than they otherwise would. Just as important, it may make future crises less likely by offering a viable alternative to hoarding foreign exchange. If countries believe they will have easy access to IMF money when trouble arrives, they may choose collective protection over self-insurance. To encourage this, the fund is trying to reinvent itself as a friendly source of help. It has overhauled its lending rules and created a string-free, pre-emptive credit line, for which Mexico has become the first client.

Unfortunately, a tension remains. Potential self-insurers will turn to the fund only if they can be sure of easy cash in a pinch. But many countries that need the fund's money, from Hungary to Pakistan, do need to tighten their belts. In such cases, the organisation must still act as a policy policeman.

Supersized and souped up

The IMF must find a way to be both insurer and policeman. For that it needs more reform. A priority is to give emerging economies more clout. The G20 has promised to increase their “quotas” or shares in the fund; a quicker solution would be to cut the majorities needed for big decisions, to remove what is in effect an American veto. The fund also needs to distinguish more clearly between its two roles. One idea is to make its contingent cash facilities look more like insurance, requiring risk-related premiums in advance and setting clear rules on payouts, while having more discretion on the conditions for traditional loans. Rich economies, which have usually eschewed IMF financing, ought to pay in too, as their vastly increased borrowing could one day cause investors to panic.

The fund will never be a global central bank. But with more money, better governance and clearer rules, it could provide collective insurance for the prudent and conditional assistance for the profligate. The G20 meeting has promised the money. Now it is time for the rest.

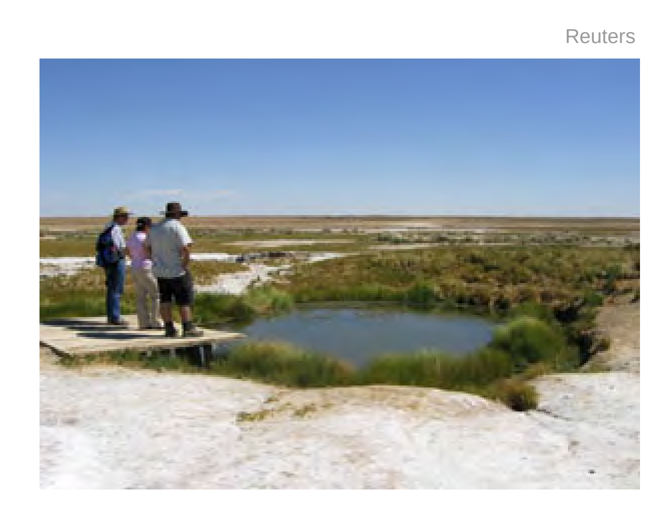
Water rights

Awash in waste

Apr 8th 2009
From The Economist print edition

Tradable usage rights are a good tool for tackling the world's water problems

Reuters



THE Chinese word for politics (*zhengzhi*) includes a character that looks like three drops of water next to a platform or dyke. Politics and water control, the Chinese character implies, are intimately linked.

Such a way of thinking contrasts with the usual view around the world, which argues that since humans cannot live without water, it should be a basic human right, available to all, preferably for nothing. The Chinese character points to a more useful approach. In many places water is becoming scarcer. Treating it as a right makes the scarcity worse. Some of the world's great rivers no longer reach the sea. In many cities water is rationed. Droughts and floods are becoming more extreme. These problems demand policies. Ideally, efficient water use would be encouraged by charging for it, but attempts to do so have mostly proved politically impossible. A more practicable alternative is a system of tradable water-usage rights.

What used to be seen as separate, local difficulties—in California, the desiccated Aral Sea, the Sahel—now look more like manifestations of a global problem. As our article explains, many water problems have global causes: population growth, climate change, urbanisation and, especially, changing diets. It takes 2,000 litres (530 American gallons) of water to grow a kilo (2.2lb) of vegetables but 15,000 litres to produce a kilo of beef—and people are eating more meat. The problems also have global implications. Without a new green revolution, farmers will need 60% more water to feed the 2 billion extra people who will be born between now and 2025.

Yet there is, globally, no shortage of water. Unlike other natural resources (such as oil), water cannot be used up. It is recycled endlessly, as rain, snow or evaporation. On average, people are extracting for their own uses less than a tenth of what falls as rain and snow each year.

The central problem is that so much water is wasted, mainly by farmers. Agriculture uses three-quarters of the world's water (urban use is trivial: most people drink two or three litres a day, on average, but 2,000-5,000 litres are used to make the food they eat). Because water is usually free, thirsty crops like alfalfa are grown in arid California. Wheat in India and Brazil uses twice as much water as wheat in America and China. Dry countries like Pakistan export textiles though a 1kg bolt of cloth requires 11,000 litres of water.

Any economist knows what to do: price water to reflect its value. But decades of trying to do that for agriculture have run into powerful resistance from farmers. They reject scarcity pricing for the reason that water falls from the skies. No government owns it, so no government should charge for it.

Cap and trade

There is a way out. Australian farmers have the right to use a certain amount of water free. They can sell that right (called a "usufructuary right") to others. But if they want more water themselves, they must buy it from a neighbour. The result of this trading is a market that has done what markets do: allocate resources to more productive use. Australia has endured its worst drought in modern history in the past ten years. Water supplies in some farming areas have fallen by half. Yet farmers have responded to the new market signals by switching to less thirsty crops and kept the value of farm output stable. Water productivity has doubled. Australia's system overcomes the usual objections because it confirms farmers' rights to water and lets them have much of it for nothing.

Tradable-usage rights have another advantage: they can be used in rough and ready form in huge countries such as China and India that do not have meters to measure usage, or strong legal systems to enforce usage rights. Instead of sophisticated infrastructure, they depend on local trust and knowledge: farmers sell a share of their time at the village pump. A system like that works in parts of Pakistan's Punjab.

Usage rights have flaws. At first, they confirm existing patterns of use that are often inefficient. Farmers can cheat, as Australians have found. They are, at most, a good start. But they would be better than what exists now, which is sporadic rationing and the threat of a giant crisis. Or what may come next, a mandatory mass conversion to vegetarianism.

Banks and accounting standards

Messenger, shot

Apr 8th 2009
From The Economist print edition

Accounting rules are under attack. Standard-setters should defend them. Politicians and banks should back off

Illustration by Claudio Munoz



IN PUBLIC, bankers have been blaming themselves for their troubles. Behind the scenes, they have been taking aim at someone else: the accounting standard-setters. Their rules, moan the banks, have forced them to report enormous losses, and it's just not fair. These rules say they must value some assets at the price a third party would pay, not the price managers and regulators would like them to fetch. Unfortunately, banks' lobbying now seems to be working. The details may be arcane, but the independence of standard-setters, essential to the proper functioning of capital markets, is being compromised. And, unless banks carry toxic assets at prices that attract buyers, reviving the banking system will be difficult.

On April 2nd, after a bruising encounter with Congress, America's Financial Accounting Standards Board (FASB) rushed through rule changes. These gave banks more freedom to use models to value illiquid assets and more flexibility in recognising losses on long-term assets in their income statements. Bob Herz, the FASB's chairman, decried those who "impugn our motives". Yet bank shares rose and the changes enhance what one lobbying group politely calls "the use of judgment by management".

European ministers instantly demanded that the International Accounting Standards Board (IASB) do likewise. The IASB says it does not want to be "piecemeal", but the pressure to fold when it completes its overhaul of rules later this year is strong. On April 1st Charlie McCreevy, a European commissioner, warned the IASB that it did "not live in a political vacuum" but "in the real world" and that Europe could yet develop different rules.

It was banks that were on the wrong planet, with accounts that vastly overvalued assets. Today they argue that market prices overstate losses, because they largely reflect the temporary illiquidity of markets, not the likely extent of bad debts. The truth will not be known for years. But banks' shares trade below their book value, suggesting that investors are sceptical. And dead markets partly reflect the paralysis of banks which will not sell assets for fear of booking losses, yet are reluctant to buy all those supposed bargains.

To get the system working again, losses must be recognised and dealt with. Japan's procrastination prolonged its crisis. America's new plan to buy up toxic assets will not work unless banks mark assets to levels which buyers find attractive. Successful markets require independent and even combative standard-setters. The FASB and IASB have been exactly that, cleaning up rules on stock options and pensions, for example, against hostility from special interests. But by appeasing critics now they are

inviting pressure to make more concessions.

To reveal, but not to regulate

Standard-setters should defuse the argument by making clear that their job is not to regulate banks but to force them to reveal information. The banks, their capital-adequacy regulators and politicians seem to dream of a single, grown-up version of the truth, which enhances financial stability. Investors and accountants, however, think all valuations are subjective, doubt managers' motives and judge that market prices are the least-bad option. They are right. A bank's solvency is a matter of judgment for its regulators and for investors, not whatever a piece of paper signed by its auditors says it is. Accounts can inform that decision, but not make it.

Banks' regulators have to take responsibility. If they want to remove the mechanical link between drops in market prices and capital shortfalls at banks, they should take the accounts that standard-setters create for investors and adjust them when they calculate capital. They already do this to some degree. But the banks' campaign to change the rules is making inevitable a split between two sets of accounts, one for regulators and another for investors. The FASB and IASB can help regulators to create whatever balance-sheet they want. But in doing so they must not compromise their duty to investors.

On the pope, illegal immigrants, advertising, China and the IMF, Iran, accounting standards, the Disability Rights Commission, aircraft, Barack Obama

Apr 8th 2009
From The Economist print edition

The challenge of AIDS

SIR – I do not think you were entirely fair when criticising the pope for saying that condoms are not useful for preventing AIDS in Africa ("Sex and sensibility", March 21st). Some of your reasoning was based on mistaken and biased information about AIDS and other sexually transmitted infections (STI). You cited Thailand, for example, but did not mention the increase in STI among its youth despite the extensive promotion of condoms there. In Spain STI are also on the rise, even though the use of condoms among its young people is the highest in Europe.

Recent studies in leading science journals show that condoms have not been effective as a primary prevention strategy to tackle the AIDS epidemic in Africa. Sadly, there is no magic bullet.

Dr Miguel A. Martínez-González
Professor and chair Department of preventive medicine
University of Navarra
Pamplona, Spain

SIR – A crucial addition to your evaluation of the pope's comments is that Catholics the world over ignore the church and use condoms. However, it is tragic that while Catholics choose to ignore the Vatican, the Catholic hierarchy in the United States seeks to deny others that choice. Last year, the bishops lobbied successfully to take family-planning measures, including condoms, out of the President's Emergency Plan for AIDS Relief, measures that would help to prevent mother-to-child transmission of HIV. Their actions gutted a truly pro-life aspect of this vital programme.

It took the Vatican 359 years to forgive Galileo for claiming that the Earth moved around the sun. Let us hope and pray that it does not take that long for the Catholic hierarchy to admit that condoms can help prevent the spread of HIV.

Jon O'Brien
President
Catholics for Choice
Washington, DC

SIR – Many Catholics, and probably many Jews and Muslims as well, agree wholeheartedly with the pope that the constant pressure to engage liberally and casually in sex, from the media and individuals who want to feel that they're "with it", is, in fact, the fuel behind AIDS and other sex-related epidemics.

Niela Kleinsmith
Tokyo

Refugee status

SIR – I read your article on illegal immigrants ("All sins forgiven?", March 14th). Countries may be concerned about their migrant-repatriation programmes, but they should address the fairness of their asylum procedures. Take the case of Adam Osman Mohammed, who was returned to Sudan after his asylum claim in Britain was denied. He was shot by Sudanese security officers in front of his wife and four-year-old son in Darfur.

Europe says it needs more and faster returns in order to safeguard the integrity of asylum systems and

deter “abuse”. The credibility of a system is indeed undermined if it fails to protect those who need our protection. Wrong decisions can have irreparable consequences.

Bjarte Vandvik
Secretary-general
European Council on Refugees and Exiles
Brussels

Subscribing to freemium

SIR – As a former technology writer at *The Economist*, I understand the appeal of “simplify, then exaggerate”. But in the case of your leader on freeconomics you have done a bit too much of both (“The end of the free lunch—again”, March 21st). First, where is your evidence that online advertising is a failing model? To be sure, the financial crisis has dramatically slowed its growth like that of every other industry, but unlike most others it is still positive. The worst forecasts for the year that I have seen predict that it may drop by a few per cent from last year’s record figure. That is a lot better than the offline advertising market and hardly supports your hyperbolic claim that “the demise of a popular but unsustainable business model now seems inevitable.”

Second, there is more to free business models online than advertising. The big shift has been the rise of “freemium” (free+premium) models, where products and services are offered in free basic and paid premium versions. Think Flickr and Flickr Pro (more storage), virtually all online games and even your own website (some free and some paid content).

Finally, your scorn blinds you to the fact that this crazy idea of giving away content free and supporting it by advertising is nearly a hundred years old. It is the basis of the standard radio and television broadcast model and countless other companies, from the free daily and weekly newspapers to the vast majority of media websites, including all of our own at Condé Nast. It works great—*The Economist* should try it.

Chris Anderson
Editor-in-chief
Wired
San Francisco

China and the IMF

SIR – Your briefing on China and the West quoted from an interview I gave to *China Daily* mentioning that some countries which could potentially benefit from China’s new contributions to the IMF may not be friendly to China (“A time for muscle-flexing”, March 21st). I would like to emphasise that in my interview this was only a minor consideration and not a sufficient reason to withhold funding. Issues such as the United States’ veto power at the IMF and the simple fact that China remains a poor country ranking 100th in terms of income per head among UN member states are much more important. Ultimately, increasing China’s share of IMF funding is in China’s and the world’s interests, but the terms must be beneficial to China, not merely to west European or American banks that ran up massive exposures to some emerging markets due to reckless lending. I would also emphasise the need for China to increase its financial help to the poorest developing countries.

Yu Yongding
Director-general
Institute of World Economics and Politics
Chinese Academy of Social Sciences
Beijing

The following letter on China appears online only

SIR – You are fun to read, but not always funny. When you get serious, you tend to lecture from on high. You reflect the ambivalence and suspicion with which China is viewed and add a sense of threat, now more immediate because of even greater dependence on credit from China in the global economic turmoil. Your leader (“How China sees the world”, March 21st) laid down a set of conditions that China must satisfy to show it understands what it is to be a great power. But how many other countries have

fallen short of the requirements you imperiously demand of China?

You also report that China's use of its anti-monopoly law when rejecting the offer by Coca-Cola for China Huiyuan is a bias against outsiders and, by extension, sweepingly conclude that this is what that law is all about ("Hard to swallow", March 21st). Does the use of any similar provision by any other great power also reflect such xenophobia?

It seems to me as if you pick on China because you begrudge its rise. I am reminded that the Japanese, the first non-white great power, were only invited to the second peace conference at The Hague, in 1907, after they defeated the Russians in 1905. At the conference the Japanese representative said: "We showed ourselves to be your equals in the art of scientific butchery, and at once we are invited as a civilised nation." Now that is not very funny.

Munir Majid
Senior fellow
South-East Asia International Affairs Programme
London School of Economics
London

The following letter on Iran appears online only

Iranian detente

SIR – Your article on the Iranian elections refers to the animosity of Iranian regimes towards the United States and Britain and attributes this in part to "Western backing for Iraq during its 1980-88 war with Iran" ("It could make a big difference", March 21st). Although both America and Britain deserve to be condemned for meddling in Iranian politics, notably by supporting the 1953 coup against the prime minister, Muhammad Mossadegh, there is a certain selectiveness in Tehran's hostility towards the outside world.

American and British assistance to Saddam Hussein was after all negligible compared with that offered by the Soviet Union, France, China, the Warsaw Pact countries and the Arab world throughout the 1980s. Russian aid to the Baathist state effectively kept Iraq in its war of aggression against Iran. The Iraqi armed forces had Soviet advisers and Iraq's arms, from the machineguns used to slaughter Iranian conscripts in the Faw Peninsula to the Scuds launched at Iranian cities, were mainly provided by the former Soviet Union.

And yet Iran's president, Mahmoud Ahmadinejad, is not demanding an apology from Russia for helping Baathist Iraq butcher at least half a million Iranians from 1980 to 1988. Historical grievances therefore only go some way in explaining the Islamic Republic's entrenched hostility towards America and Britain.

Geraint Hughes
King's College London
London

The following letter on accountancy appears online only

Accountancy standards

SIR – The importance of accountancy-standards settings being kept separate from regulatory oversight cannot be highlighted enough ("Inadequate", March 14th). The best way accounting can promote financial stability is by delivering trustworthy and transparent information, and by explaining uncertainties. The primary purpose of financial reporting is to provide information to investors. If financial reporting does not meet regulators' needs, they can ask banks for different information and adjust their capital rules accordingly.

Both in America and internationally, there is a debate ongoing about amending fair-value accounting requirements to aid banks. Changing accounting standards to make banks' balance sheets look healthier is not the route to achieving financial stability. The independence of standard setting must be protected, and amendments only carried out after due process and full consultation.

Regulators pushing through amendments to help businesses hide uncomfortable information will only erode market confidence and work against stability.

Iain Coke
Head of the financial services faculty
Institute of Chartered Accountants in England and Wales
London

The following letter on the DRC appears online only

Signing off

SIR – Your article on Britain's equality industry may have inadvertently given the impression that the final accounts of the Disability Rights Commission are still under scrutiny and unapproved ("Rumblings in quangoland", April 4th). In fact the DRC's accounts were approved and signed without qualification by the auditor and comptroller general on March 12th, following signing-off by myself (as former chief executive at the DRC), the chief executive of the Equality and Human Rights Commission and the team at the National Audit Office.

Furthermore, while we former DRC folk can probably accept the importance of being "earnest" as you termed us, we would jib a bit at your description of us as wild, or even Wilde, party animals.

Bob Niven
Chief executive 2000-07
Disability Rights Commission
Hatfield, Hertfordshire

Plane spotting

SIR – The aircraft pictured in a defence companies story were actually F-22s, not F-35 Joint Strike Fighters as indicated ("In the line of fire", March 21st). Even the most earnest fans of the F-22 must be unaware of its ability to disguise itself this way; it is clearly a sophisticated piece of technology.

James McGrath
Cambridge, Massachusetts

A rush to judgment?

SIR – For a newspaper that has been printed since 1843 you have developed a frightfully short attention span. You think that Barack Obama "may at last be getting a grip" on leadership ("Learning the hard way", March 28th). At last? The poor man has been in office for less than three months and you've already become exasperated. What did you expect? Loaves and fishes?

Michael Leo
Billings, Montana

SIR – Mr Obama has hit the ground running. Yes, he has made some tactical errors that, unlike George Bush, he's taken responsibility for. I assume next month you'll be calling for his impeachment.

Lloyd Trufelman
New York

North Korea's rocket

Making a splash

Apr 8th 2009 | BEIJING, SEOUL AND TOKYO
From The Economist print edition

In a world with much else on its mind, an ugly little dictatorship manages to make its presence felt

Reuters



THE launch of its three-stage rocket on April 5th, North Korea declared, was an outstanding success. The experimental communications satellite sent into orbit was already beaming back revolutionary songs to a grateful nation, and rocket technicians were weeping “tears of joy”.

Yet the United States, South Korea and Japan, over whose main island the rocket flew, said that the launch was a front for testing a Taepodong-2 intercontinental ballistic missile. What is more, they claimed, it was a flop. The booster rocket appears to have dropped as it should have done into the Sea of Japan, but the rocket’s remaining stages along with its payload ditched in the Pacific some 3,200 kilometres (2,000 miles) from the launch-pad.

Missile engineers like to say that failure is more useful than success when it comes to learning about design flaws. On the only other occasion a Taepodong-2 was tested, in 2006, it crashed seconds after take-off, and a Taepodong-1 launched in 1998 got only half as far as this one. Even so, North Korea’s long-range missile programme, despite a lot of chest-puffing, is still a long way from impressing anyone.

That, in essence, is the case for the outside world to feign indifference. Don’t respond with table-thumping anger, argues the International Crisis Group, a think-tank. It would be better to channel energies towards persuading North Korea to re-engage with the six-party process meant to get it to scrap its nuclear programmes and to bring about peace on the divided Korean peninsula (the talks have been stalled since the autumn, when North Korea refused to allow its nuclear declaration to be properly verified). But such a sanguine approach comes harder to those countries, namely South Korea and Japan, which are the butt of warlike rhetoric—and the target of potential North Korean rockets.

Before the launch, the United States, South Korea and Japan each deployed destroyers to nearby waters equipped with Aegis anti-missile systems. Japan had also threatened to shoot down the rocket with land-based batteries if it seemed to endanger its territory. North Korea had said that this would be an act of war.

In the event, no debris landed on Japan, which was nevertheless angered, calling the launch “extremely regrettable”. South Korea berated North Korea for “provocative behaviour” (our picture shows South

Koreans watching a rerun of the 1998 launch). Meanwhile, President Barack Obama's administration declared that the North "cannot threaten the safety and security of other countries with impunity."

Possibly it can, at least this time. Japan is pushing hardest for fresh United Nations sanctions on North Korea, to add to those unanimously imposed in 2006, after missiles were fired and a nuclear device exploded deep in a North Korean mountain. Hillary Clinton, America's secretary of state, insists that the UN take a strong stance. Japan, South Korea and America all agree that the launch breaches the 2006 UN resolutions. Yet if it offends the spirit of the sanctions, it does not appear to break the letter, which talks of a ban on "missile" launchings, not satellites.

China, for one, has so far sided with North Korea's protestation that this was a satellite launch, pure and simple. It is clearly anxious to avoid the kind of rebuff it got in October 2006, when the North went ahead with its nuclear test even after a public Chinese warning of "serious consequences". This time, China has appeared unruffled about the event. Even after North Korea announced its intention to launch a satellite, China entertained a visit in March by North Korea's prime minister, Kim Yong Il, with all the usual honour-guard pomp. President Hu Jintao told Mr Kim with fine hyperbole that the two countries' friendship had become "the common treasure of both nations."

This time, too, North Korea has behaved with a scintilla of responsibility. It joined the Outer Space Treaty in March and alerted commercial airlines and the International Maritime Organisation to the launch schedule. With permanent seats in the UN Security Council, China and probably Russia will veto any attempts at fresh sanctions. In private, Japanese diplomats say that perhaps the best they can hope for is a resolution to enforce the earlier resolutions.

So there you have it: despite the world's anger at North Korean provocations in 2006, the regime's head, Kim Jong Il, and his cronies can still lay their hands on a case of cognac when they feel like one, easily obtainable like so much else from the cross-border trade with China. Meanwhile, Iranian and Syrian military types pop in and out of the country with impunity, making a mockery of attempts at preventing weapons proliferation. Iran and North Korea are known to be co-operating on their missile programmes.

The nuclear option

If strong collective action is unlikely, the question is what else might be done. Though American military spooks had for weeks been using their own satellites to follow the launch preparations at the Musudan-ri missile site near North Korea's eastern coast, the policy of Mr Obama's administration towards North Korea has yet to be fleshed out. Mr Kim has at least managed to add urgency to that process.

Later on the day of the launch, Mr Obama in Prague unveiled a lofty vision of a world free of nuclear weapons. On cue, Mr Kim had furnished him with a dramatic reason to pursue his dream. But the president has still to fill many of the seats in his foreign-policy and security teams. A policy on North Korea may not be unveiled for weeks or months. In the meantime American hawks are already accusing Mr Obama of succumbing to mere "hand-wringing" over the regime's actions.

They are probably right in guessing that Mr Obama's instincts for inclusion and dialogue will mean a form of engagement that is more akin to George Bush's Korean policy in his second term than the confrontational approach of his first, during which North Korea became a charter member of the "axis of evil". For a start, Mr Obama's special representative for North Korea, Stephen Bosworth, is a proponent of engagement over confrontation as the means to draw the country out of its shell.

Such an approach might irk Japan. Even if North Korea's long-range missiles are a threat only if they break up as they fly over its islands, Japan has other grudges and worries. There is the matter of the Japanese kidnapped during the 1970s and 1980s and taken to the North to be trained as spies or language teachers. Mr Kim refuses to give more information about the fate of the abductees and, until he does, Japan will continue to play no more than a bit-part in the six-party process—even though it expects to have to fork out gazillions for North Korea's economic development if it agrees to abandon its nuclear ambitions.

Reuters



Kim amid his rocket scientists

There is also the matter of North Korea's shorter-range missiles, which are likelier to be aimed at Japan and whose development has been much more successful than intercontinental ones. The International Crisis Group in a new report quotes intelligence sources who claim that North Korea has recently assembled and deployed miniaturised nuclear warheads for its Nodong medium-range missile, which is in theory capable of reaching Japan. If true, this is alarming news, and the only surprise is that Japan has not publicised it.

A softer approach may not entirely please South Korea either. Relations between the North and South Korea's president, Lee Myung-bak, have been sour since the start of his administration last year when Mr Lee made generous dollops of aid conditional on progress in the six-party talks. These conditions have infuriated Mr Kim and his henchmen: Mr Lee's appeasing predecessors were profligate with their help for the Dear Leader. But Mr Lee believes that aid money was diverted from the North's hungry population in order to finance military expansion, including spending on the country's nuclear and missile programmes.

Mr Lee has been the target of a wave of personal insults unleashed by the North. On a couple of occasions this year, North Korea closed the border without notice, jeopardising the operations of South Korean companies in the North's Kaesong industrial complex, a chief source of hard currency for the regime and a supposed symbol of successful inter-Korean relations. North Korean officials have refused to meet South Korean counterparts who are currently seeking the release of a South Korean man detained at Kaesong for "insulting" the government. Last year a South Korean tourist in North Korea was shot dead. The latest bout of bad feeling came when the North Korean government claimed its national soccer team had been poisoned during a visit to Seoul to play a world-cup qualifying game (the team lost).

Yu Myung-hwan, the South's foreign minister, says he is in no rush to talk to North Korea—and that the North Koreans have anyhow been refusing to pick up the hot-line telephone. For now, South Korea is keen that Mr Bosworth should not meet North Korean diplomats or travel to Pyongyang. It fears that talks will merely reinforce the North's perception that bellicose actions lead to good results. Yet if America does reach out to the North, South Korea will have no choice but to go along.

You have our full attention

As has been said of other dictators, reading the mind of Kim Jong Il is like looking for a black cat in a darkened room, when you do not know if the cat is there. But it can be assumed that in ignoring appeals for restraint and going ahead with the Taepodong-2 launch he had several aims in mind. One is to test a military deterrent North Korea still acutely feels it needs in a hostile world where, or so it believes, America is plotting its downfall. He must also have desired to get the attention of the new Obama administration. He may have wanted to show off to his own unhappy people that his regime is still capable of impressing the world, and that he, having recovered from what is thought to have been a stroke last year, is in full command. He could also have thought it wise to give the armed forces a boost, as they will be crucial to securing the succession of whichever member of his ghastly family he decides to bequeath his dictatorship to.

Most of all, perhaps, he wanted to sow dissent among North Korea's foreign partners in the six-party talks, and so strengthen his own bargaining position. Like his father, Kim Il Sung, he has made an art of dividing the outside world to rule at home. And on this count at least, even if the missile launch was another spectacular failure, it has achieved its end. The tears of joy may be genuine after all.



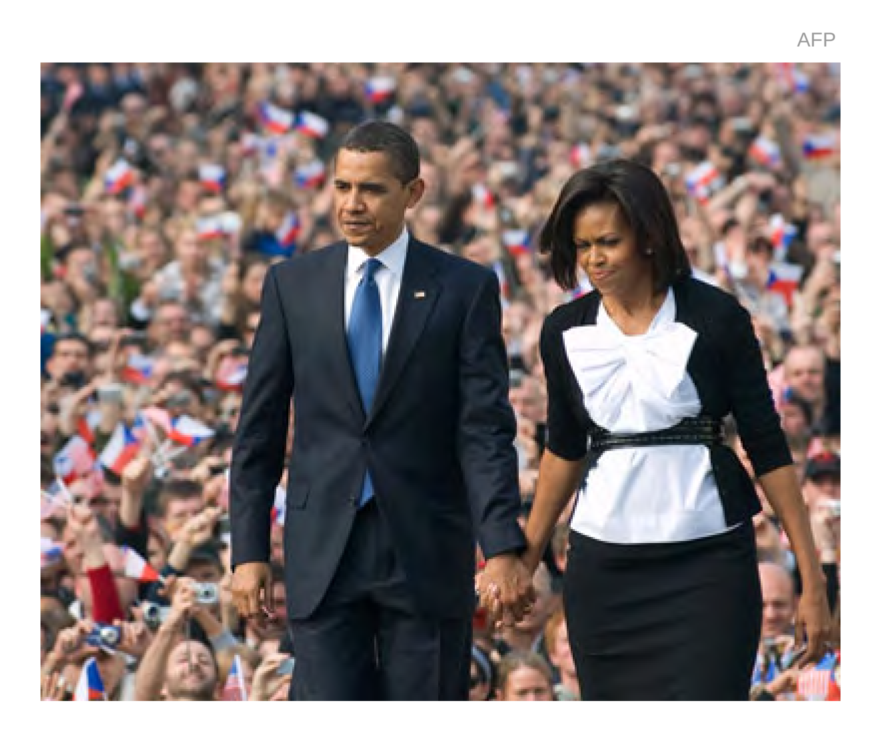
Barack Obama's foreign policy

Two cheers and a jeer

Apr 8th 2009 | WASHINGTON, DC
From The Economist print edition

Most Americans like having a leader whom foreigners adore. But some wish he was feared a bit more

AFP



AFTER Barack Obama's first long jaunt abroad as president, Americans are in two minds. Some are delighted that so many foreigners love him. Others fret, like Machiavelli, that it is often better to be feared than loved, and that the people who ought to fear America don't take Mr Obama seriously.

Everywhere you go, optimists note, Mr Obama is more popular than his predecessor. European leaders jostle to be snapped standing next to him. Star-struck crowds strain their necks for a glimpse of his wife. At the G20 summit in London last week, the world's rich nations rallied behind him to tackle the global financial crisis. Mr Obama is well-received even in Muslim countries such as Turkey, where George Bush would struggle to fill a single room with friendly faces. All this goodwill must be in America's interest.

So far, the optimists form a sizeable majority. Pundits lauded Mr Obama's performance in Europe. Public approval for his handling of foreign policy rose from 54% in February to 61% at the end of March, according to Gallup. These are impressive numbers. But the same poll found that disapproval of his handling of foreign policy had also gone up by six points, from 22% to 28%. Only the "don't knows" declined. As Mr Obama starts to have a track record, more Americans are forming opinions about it.

It is all very well, say the sceptics, for Mr Obama to make airy promises about everyone standing together for "the right of people everywhere to live free from fear in the 21st century". But his main policy proposal towards that end—the vision of a world free of nuclear weapons—is "a dangerous fantasy", said Newt Gingrich, a former Republican speaker of the House of Representatives, in an online chat with readers of *Politico*, a newspaper.

On April 5th in Prague, Mr Obama reiterated a campaign promise to hold talks with Russia to reduce both American and Russian nuclear stockpiles, to push for a global nuclear test ban and to set up an international nuclear fuel bank to help with peaceful nuclear-energy programmes. The same day, North Korea, which has already made at least one illegal nuclear bomb, fired a test missile over Japan.

Though the missile crashed into the sea, many Republicans think it illuminated Mr Obama's naiveté. The problem is not the great powers with nuclear stockpiles, they say, but rogue regimes such as North Korea and Iran. Hawks scoff that Mr Obama approaches such rogues with fine words but no stick. He promises that North Korea's treaty-breaking will have consequences, but so far these have consisted mostly of ineffectual scolding.

The conservative critique of Mr Obama is that he is Jimmy Carter redux: a woolly idealist who thinks he can sweet-talk bad guys into behaving. While he pursues talks with Iran, Republicans fret, Iran's leaders chuckle behind their beards and carry on enriching uranium. For many conservatives, the defining image of Mr Obama's European tour was not the adoring crowds but the way America's new president bowed before the king of Saudi Arabia. Bloggers juxtaposed his cursory nod to Britain's Queen Elizabeth with the deep bow he gave to the dictatorial ruler of a far less reliable ally.

Such complaints reflect increasing polarisation. A Pew poll this month found that the gap between Mr Obama's early approval ratings among Democrats (88%) and Republicans (27%) was wider than that of any president in the past four decades. But since the number of Republicans is dwindling, that still leaves Mr Obama with a healthy level of support. For example, 81% of Americans agree with his goal of improving relations with the Muslim world, and 65% trust him to pursue that goal in a way that is "about right", according to a *Washington Post*-ABC News poll this week. (Meanwhile, roughly one American in ten still believes, incorrectly, that Mr Obama is a Muslim.)

Most Americans also reckon that, despite his touchy-feely manner, their new president is tough enough. His surprise visit to Iraq on April 7th attracted favourable headlines. Nearly two-thirds of Americans now believe the war there is winnable. Most think Mr Obama is doing a good job in Iraq, and a plurality think his plan to withdraw most American troops by the end of 2010 is about right.

Americans are less confident, however, that things are going well in Afghanistan. Many view Mr Obama's plan to send more American forces there as a necessary evil. By 51% to 41%, they would rather concentrate on crushing the Taliban militarily than rebuilding the Afghan economy. Conservatives note that, despite Mr Obama's popularity abroad, America's allies are sending precious few troops to help him do this.

One or two aspects of Mr Obama's foreign policy are unpopular at home. The attempts of his secretary of homeland security to replace the word "terrorism" with "man-caused disasters" attracted much ridicule. More seriously, Americans disapprove of Mr Obama's plan to close the prison at Guantánamo Bay by 50% to 44%. But since it is unclear what he will do with the inmates—he has left open the possibility of detaining the most dangerous ones indefinitely—that could change. Even less popular is Mr Obama's lifting of the ban on federal aid for groups, such as Planned Parenthood, which provide abortions or advise about them in foreign countries. Only 35% of Americans approve of this, with 58% opposed.

For the most part, however, Mr Obama's foreign policies run with the grain of public opinion. For example, he proposes a slight thawing of relations with Cuba (see article). Most Americans have long favoured full normalisation. An embargo persists only because its advocates are more passionate than its opponents, but that too is changing. Cuban-Americans who fled Fidel Castro's dictatorship for the *barrios* of Miami still favour sanctions, but their children have long been less sure about them. And since the diehards seldom vote Democratic anyway, Mr Obama may see little risk in upsetting them.

There are even fewer risks in Mr Obama's recent announcement that he may send extra troops to the Mexican border to curb violence by drug gangs. Alarmed by sensational television coverage—for example, a CNN correspondent breathlessly asked a Mexican gangster how much it would cost to assassinate someone in America—85% of Americans support this idea.

In general, Americans are comfortable with Mr Obama's preference for talking to troublesome foreigners, rather than blacklisting them. But not if he starts talking to the guys who once sheltered al-Qaeda. An ABC poll last month found that 53% of Americans would oppose negotiating with the Taliban even if they agreed to suspend attacks on American and Afghan forces. And Americans have little faith in global talking-shops: nearly two-thirds think the UN does a poor job of tackling the problems it faces.

Defence budget

A daring punt

Apr 8th 2009
From The Economist print edition

Robert Gates changes the Pentagon's priorities

MORE men at the expense of machines; more drones rather than top-end fighter jets and future bombers; more helicopters for combat troops rather than a replacement for the presidential chopper; more coastal vessels and fewer aircraft-carriers; better cyberdefences, but scaled-back missile defences and laser weapons. In short, the new American defence budget would spend more on today's wars in Iraq and Afghanistan and less to stave off future threats from China or Russia.

The proposals have delighted those who think America will fight irregular "small wars" for the foreseeable future, and horrified those who believe it must be ready to fight big conventional ones. John McCain thinks the 2010 budget is "a major step in the right direction". But a fellow Republican senator, James Inhofe of Oklahoma, muttered of "disarming America".

That is stretching the point. With a defence budget request of $534 billion next year (a 4% increase on this year), plus $130 billion for the wars in Iraq and Afghanistan, the Obama administration is hardly cutting defence. But the priorities outlined on April 6th have the fervour of a new administration determined to do things differently—except that the man at the top is the man who ran the Pentagon in the last Bush years, Robert Gates.

How to explain the transformation in "Gates 2.0" as some pundits now call the defence secretary? To begin with, Mr Gates has spent the past two years trying to avert military failure, first in Iraq and now in Afghanistan, rather than taking on powerful constituencies over contracts for expensive equipment. He has given notice for nearly a year that the Pentagon's spending priorities would have to change to support its new emphasis on counter-insurgency. Moreover, the financial crisis means that America will not be able to spend more to equip itself both for small wars and for big ones. Mr Gates says the budget is "one of those rare chances to match virtue to necessity, to critically and ruthlessly separate appetites from real requirements".

EPA



The F-22: exquisite but unaffordable

For many years the strain in defence spending has been relieved by supplemental spending. But Mr Gates says long-term commitments—such as health care for wounded and traumatised troops and other forms of personnel spending for an expanding army and marine corps—should be brought into the base budget. Special forces, the tip of the spear in fighting terrorists (and training allies), will also get a boost in numbers.

All this means there will be less money for expensive kit. And the kit that is bought should support fighting units: a 62% increase in unmanned drones, for instance. Mr Gates argues that America's superiority in conventional forces "is sustainable for the medium term". This means trading off "exquisite" top-end equipment, such as the F-22 fighter, for less capable but cheaper stuff, like the F-35 joint-strike fighter being made with several other allies. Decisions on a new bomber would be deferred, pending nuclear talks with Russia. Spending on missile defence would be pared and would focus on what

works best.

With billions of dollars and thousands of jobs at stake, Mr Gates can expect strong opposition from many quarters. At a meeting with defence pundits, Mr Gates used an image from American football to describe his situation: he said he had punted the ball, caught it himself, and now had Congress bearing down on him fast.

Oakland

Killing for respect

Apr 8th 2009 | OAKLAND, CALIFORNIA
From The Economist print edition

A puzzling ground zero in America's struggle with crime and race

"AMBULANCE, not police; I saw the look in your eyes," says Phil Tagami, a native of Oakland and a property developer in the city, as another siren wails outside his downtown office. Mr Tagami, of Japanese, German and Jewish stock, knows his sirens and loves his town, which he calls "the working waterfront for the Bay Area". Many of the people who work in San Francisco and Silicon Valley (across the bridge to the west) or in Berkeley (just to the north) live here. Then he opens a folder in a big pile of crime statistics. The story that emerges is not quite what recent headlines have suggested.

Oakland is trying to return to normal after a horrendous and atypical bout of black-white racial tension. It began on New Year's Day, when a white officer shot and killed a young black man lying face down on a railway-station platform. Bystanders recorded the shooting on their mobile phones and riots broke out. Then, last month, two white policemen pulled over a young black man in a routine traffic check. The man, Lovelle Mixon, who was on parole from prison and suspected of rape, opened fire, killing both policemen. He ran to an apartment building where he barricaded himself in with an assault rifle and gunned down two more officers before being shot to death himself.

Such violence is by no means unique to Oakland. But the city presents a special puzzle. It is bursting with "signs of success everywhere, of flourishing urbanism", says Kevin Starr, a historian of California. Oakland has grown since 1852 from a wooded suburb of San Francisco into an industrial city with a port despatching wine from Napa and fruit from the Central Valley. One district, Piedmont, technically an autonomous city for the past century, is among the wealthiest in the country. Oakland boasts architectural gems, a zoo, several sports teams, a picturesque downtown lake and trendy gallery districts.

With about 150 languages, it is also among the most diverse cities in the world. The largest single group in the 2000 census was blacks; now they come a close second behind whites and not far ahead of Latinos. Oakland has a thriving black middle class. Three of its past four mayors have been black. The city has spawned many national trends in black culture, most recently "hyphy", a largely black rap, dance and fashion style. Adherents like to wear T-shirts down to their knees and have the motto "Go Dumb".

A favoured way of going dumb is to attend drag races at which cars are wrecked and fights often break out. For, despite all the city has to offer, Oakland's violent-crime rates are the highest in California and among the highest in the country. Whereas in most American cities murders and many other crimes have gone down or remained stable over the past decade, they have gone up in Oakland.

Poverty cannot be the primary reason, says Jack Levin, a criminologist at Northeastern University in Boston. Oakland has much less poverty than cities such as Hartford, Baltimore or Memphis, which also have high crime rates. Nor is it racial tension, since the overwhelming majority of Oakland's violent crime is black-on-black. In the late 1980s much of it could be blamed on the twin epidemics of crack cocaine and handguns. But today's shootings, often among men who were "crack babies", are more likely, says Mr Levin, to happen for "respect".

Respect killings defy reason. A wrong look, a casual gesture, can lead to a full-blown shoot-out. The murders, says Mr Tagami, tend to happen in the two or three areas where black former prisoners—by his estimate, about 7.5% of Oakland's population of 400,000—are to be found. Most of them go in and out of prison, getting more brutal as they go. "Three-time offenders are killing four-time offenders," he says, because younger criminals are fighting for the turf of older ones, and for the respect of their peer group.

Oakland's liberal politicians, at least as left-wing as their colleagues in Berkeley and San Francisco, do not know what to do about the problem or even, according to Mr Starr, how to talk about it. This "nihilist insurgency", he says, leaves them tongue-tied: at the ceremony for the fallen policemen, Ronald Dellums, Oakland's current mayor—a black hero of the anti-apartheid era—had nothing to say at all.

Conservation

Prairie in the city

Apr 8th 2009 | ST LOUIS
From The Economist print edition

An unexpected survival in St Louis

THE prairie once covered a million square miles of North America. Relentless settlement, bringing agriculture and grazing, reduced it to scattered remnants. One of the least known scraps survives, in all places, within the city limits of St Louis, Missouri.

Its hiding place is Calvary Cemetery, a 477-acre graveyard to the north of the city. Among the famous buried there are Tennessee Williams and William Tecumseh Sherman, of “Marching though Georgia” fame. Almost by accident, environmentalists discovered that an untouched 25-acre plot in the cemetery was one of the last bits of the prairie that, till the early 19th century, covered most of the site of present-day St Louis.

A detailed study found more than 130 species of native prairie plants, from the tallgrass that towered over the first settlers to the smallest, most delicate wild flowers. The city crowds all round it. Indeed, it is the only known piece of prairie within the Interstate 270 loop that circles the St Louis metro region.

Although the plot had been spared, it had been invaded by black locust trees and ornamentals imported from Asia. Joint efforts are now being made by the Missouri Botanical Garden, the Missouri Department of Conservation, the Nature Conservancy and the Green Centre of St Louis to encourage the native plants and weed out the intruders. The best way to do that is to burn the land, as happens naturally with wildfires. A number of controlled burns of small sections have eliminated some intrusive species while revitalising the native plants. The burned areas have already sprung back to life, healthier than before.

The archdiocese of St Louis, which owns the cemetery, has made a 100-year commitment to leave the land as a preserve and keep it open to the public. In the midst of the dead is a gift from the past to future generations.





No hoods here

Volunteering

A service nation

Apr 8th 2009 | NEW YORK
From The Economist print edition

Public service is on the cusp of becoming a national movement

Correction to this article

IN A Manhattan park on March 31st the Unemployment Olympics took place. Participants competed in events such as the "Telephone Toss" and "Pin the Blame on the Bosses". But other unemployed people are looking for charity work to occupy their time. Many non-profit organisations are seeing an increase in people looking to help. Even before the economic crisis, AmeriCorps, a programme which takes young volunteers for a year, was turning away two applicants for every one it accepted. Teach for America, which sends recent college graduates to teach in needy schools, saw 35,000 students apply for up to 4,000 openings this year. In February VolunteerNYC.org, New York's public-service site, saw a 27% increase in visitors compared with a year ago.

Non-profit organisations now have 9.4m employees and 4.7m full-time volunteers nationwide. They make up 11% of the American workforce, more than the car and financial industries combined, according to "The Quiet Crisis", a report by Civic Enterprises and the Democratic Leadership Council. Demand for their services has increased dramatically in recent months. The United Way has seen a 68% increase in the number of calls for food, shelter and warm clothing.

Corporate America, too, is joining in. Companies such as Timberland and PricewaterhouseCoopers allow employees time off for public service. Others, like Target, are going into partnership with non-profit groups to provide *pro bono* marketing and financial advice. "These times demand that we develop a new social contract," says Laysha Ward of Target. The Taproot Foundation is trying to bring the *pro bono* ethic to other professions by putting corporate America in touch with charity groups that need their expertise.

Thousands of lawyers have been laid off in recent months. Law Shucks (lawshucks.com), a website that tracks layoffs from big law firms, puts the casualties since January at 9,946, 4,046 of them lawyers and the rest support staff. Job offers to graduates have often been rescinded or deferred; salaries, even of established partners, are being cut. But some law firms are encouraging the underemployed or deferred to do *pro bono* legal work for a public-interest group for a time. Some are paid monthly stipends or are offered a portion, often a third, of their salary. Bain & Company, a consulting firm, is also encouraging deferred recruits to do *pro bono* work.

On March 31st Congress overwhelmingly passed the Edward Kennedy Serve America Act. This bill, the most sweeping overhaul of the national-service programme since it was launched in 1993, will devote $5.7 billion over five years to expanding or creating national-service programmes, including tripling the size of AmeriCorps from 75,000 positions to 250,000. In 2008 AmeriCorps members mobilised 2.2m community volunteers, so this expansion could affect 7m people.

The new law will also create "encore fellowships", which will tap the skills and experience of older Americans for second careers in education, health care and non-profit management. A January survey by the AARP, which represents 40m Americans aged 50 and above, found that 73% of those who responded preferred to give time rather than money.

Correction: An earlier version of this article stated that the Unemployment Olympics took place in Brooklyn. In fact they were held in Manhattan's Tomkins Square Park. This article was corrected on April 8th, 2009.

Transport systems

Slower than a speeding bullet

Apr 8th 2009 | CHICAGO
From The Economist print edition

America's trains may soon go faster—relatively

"WE'RE going to lay some rail!", Rod Diridon shouted to a packed room in Chicago last month. "What kind of rail?" he asked. "High-speed rail!" the room roared back. Mr Diridon, chairman emeritus of the California High Speed Rail Authority, was addressing like-minded folk at the annual meeting of the Midwest High Speed Rail Association. The conference had attracted far more people than anticipated, lured, no doubt, by money. Barack Obama's stimulus contains $1.3 billion for Amtrak and $8 billion for high-speed and intercity rail projects. And support will be sustained with $5 billion in state grants over five years.

France, Japan, Spain, Germany, all have trains that zoom through the countryside at speeds up to 217mph (350kph). America has one "high-speed" rail corridor, from Washington to Boston, on which trains average about 80mph. With new federal cash, rail enthusiasts hope to convert a car-loving country to their cause. High-speed rail holds vast promise, from easing congestion (and speeding the flow of goods and services) to reducing carbon emissions. By April 18th Ray LaHood, the secretary of transport, must present a strategic plan for how the money will be spent. Those hoping for a Shinkansen in their suburb, however, will be disappointed.

In the 20th century rail travel languished as Americans fell in love with cars and interstate highways. Jet travel made railways even less attractive. A thinly scattered population and government subsidies for road and air travel did not help. In 1970 Congress created Amtrak to take over the ailing rail passenger service. Over the years the semi-private corporation has been plagued by poor management and volatile funding. Except for the Washington-Boston line, trains have been mostly slow, unreliable and unpopular. By 2000 rail accounted for just 1% of all intercity commercial trips. On National Train Day in May 2008 Amtrak employees handed out bumper-stickers that read "I'm a trainiac", apparently not realising the irony of placing such a message on one's car.

Trainiacs have had a better stretch of late. Ridership on Amtrak has jumped by 18% over the past two years. In October Congress reauthorised Amtrak for five years, and included plans to advance intercity and high-speed passenger rail. The stimulus added cash and momentum.



There are reasons, however, to be cautious. First, the cost of any one project far exceeds the money

available. California, which has the most advanced plan, would connect the state's biggest cities with trains running at more than 200mph. In November Californians approved $9.95 billion of bonds for the project. On top of this, officials hope to get $12 billion-16 billion from Washington. The plan is expected to cost $40 billion in all. But the stimulus contains only $8 billion for the whole country.

Second, many plans would make trains high-speed only in a relative sense. Proposals that are cheaper than California's are also much slower. A plan for the Chicago-St Louis line, for example, would speed up trains from 79mph to only 110mph. Multiple road crossings require trains to move more slowly than in Europe. Adding to the problem, most passenger trains run on track owned by freight railways. Congestion makes service less reliable.

Third, some proposed lines make more sense than others. High-speed rail is most viable, reports the Government Accountability Office, when it runs through a crowded corridor for distances of 100-500 miles. Trains must compete with cars and planes for speed, reliability and cost-effectiveness. Brian Taylor, a transport expert at the University of California, Los Angeles, worries that the "coolness factor" of high-speed rail can tempt planners to look for a place to lay track, rather than for problems that fast trains might solve. America has ten official high-speed rail corridors, designated by the Federal Railroad Administration (FRA) in the 1990s. Each proposal weighs costs and benefits differently.

It is up to Mr LaHood and the FRA to make sense of this jumble. A modern railway system—connected to America's existing roads, airports, subways and buses—could support future economic growth. But there must be a national strategy before the rubber hits the road or, as trainiacs prefer to say, the wheel hits the steel.



Gay marriage

Wedding season

Apr 8th 2009 | CHICAGO
From The Economist print edition

Supporters of same-sex marriage see hope in the Midwest—and Vermont

THE slow march towards legalising gay marriage was hobbled in November, when voters in California passed a proposition to ban it. Twenty-nine states now have constitutional amendments restricting marriage to a man and woman. But after a long winter the spring thaw has revealed a movement sprouting once more.

In New England, proponents are hoping to legalise gay marriage in all six states by 2012. On April 7th Vermont became the first state to allow gay marriage through legislation, rather than a court order, nine years after it became the first state to authorise civil unions. Just as significant is a decision from America's heartland. On April 3rd the Supreme Court of Iowa ruled that barring gays from marriage violated the state's equal-protection clause. Iowa thus became the third state in America, after Massachusetts and Connecticut, to allow gay marriage. Couples may tie the knot as soon as April 24th.

Old cultural norms are more firmly planted in the Midwest, but this is changing. Of the ten states showing the greatest increase in gay couples from 2000 to 2005, all but two were in that region.

It is fitting that Iowa should be the first Midwestern state to let gays marry. True, it is far from radical. In 1998 the state passed a law defining marriage as between a man and a woman. The rural western half, in particular, cherishes conservative values. Still, Iowans pride themselves on being independent thinkers. A new poll from the University of Iowa found that only 37% of Iowans oppose both gay marriage and civil unions. Twenty-eight per cent support civil unions and 26% believe the right to marry should be extended to all.

Iowa's Supreme Court is also seen as progressive. It ruled against slavery in 1839. Thirty years later it ordered Iowa's public schools to be desegregated. "Iowa's court has been, for generations, independent, fair-minded and willing to enforce equality on behalf of vulnerable groups," says Jennifer Pizer of Lambda Legal, which argued the case before it. The ruling on April 3rd was unanimous and written by a Republican appointee.

AP



That says it all

The decision set off the expected explosion. LetUsVoteIowa.org, a project supported by local conservative groups, declared: "This decision is anti-family AND unconstitutional!" Bryan English, a spokesman for the Iowa Family Policy Centre, says the ruling "does not reflect the opinion of the vast majority of Iowans."

The fight has now moved from the courthouse to the gold-domed state capitol. The ruling, however, will probably stick. To ban gay marriage, the legislature must pass a constitutional amendment in two successive assemblies. Only then would the matter go to voters, probably in 2012. But that seems unlikely. The Democratic leaders of the House and Senate jointly congratulated "the thousands of Iowans who can now express their love for each other". Even if the legislature passes an amendment, opposition to gay marriage may fade by 2012, says David Redlawsk of the University of Iowa. Voters will have time to see that "the sky doesn't fall and the world doesn't split open".

In Massachusetts, the furore that followed a Supreme Court ruling in 2004 has mostly subsided. Now the rest of New England is following its example. Connecticut has allowed same-sex marriage since November. In Vermont, the state legislature successfully overrode the governor's promised veto. In New Hampshire,

which has a distinctly conservative streak, the House of Representatives on March 26th voted to support gay marriage. A Maine Senate judicial committee will hold hearings on the subject later this month. Rhode Island may consider gay marriage as well, and already recognises unions performed elsewhere.

Perhaps the most unexpected beneficiaries of same-sex marriage will be state economies. The University of California, Los Angeles (UCLA) reports that extending marriage to gay couples brings tourism, spending on weddings and licensing fees. Same-sex marriage in Iowa, UCLA predicted last year, would bring $5.3m to state coffers and $53m to state businesses. These hard times could use a bit more cash and celebration.

Lexington

Reflections on Virginia Tech

Apr 8th 2009
From The Economist print edition

A senseless massacre that teaches us nothing

Illustration by Claudio Munoz



A YOUNG man comes into Lucinda Roy's office. She is the head of English at Virginia Tech, a university. He is a student whose bloodthirsty "creative writing" has set off alarm bells. He insists that his teacher is over-reacting. He is not really angry, he says. His poetry is satirical; it is supposed to make people laugh. His sunglasses and cap half-hide his face. He speaks "in the softest voice I have ever heard coming from a full-grown man," says Ms Roy, "so soft in fact that I have to lean forward to hear him."

That was in October 2005. Eighteen months later the young man shot and killed 32 people, mostly fellow students, without uttering a word. Then he killed himself. As the second anniversary of the Virginia Tech massacre approaches, crazed gunmen are in the news again. A jobless man in New York state murdered 13 people on April 3rd. A jilted husband shot up a nursing home in North Carolina on March 29th. Why do such horrors happen? Some people are turning to Ms Roy's new memoir to find out.

"No Right To Remain Silent: The Tragedy at Virginia Tech", published by Harmony, is a fine work. Ms Roy is a good writer and a good person. Her interactions with a future killer are oddly touching. She coached him with his dreadful writing and tried to soothe his irrational rage. Yet her attempt to make sense of his final explosion meets an insuperable obstacle. It is futile to draw conclusions from such an unusual event.

That is not how it seemed at the time. Every television screen vibrated with debate about the slaughter. But it changed no one's mind about any broad principle of public policy. Pundits seized on it as gory evidence to support whatever they already believed. Advocates of gun control, such as *The Economist*, took the opportunity to reiterate their opposition to guns. Despite a history of mental illness, the killer had had no trouble buying two semi-automatic pistols and several kilos of ammunition. Had he been refused, innocent lives might have been spared. Not so, argued the pro-gun pundits: the real problem was that students were not allowed guns on campus to defend themselves.

Ms Roy favours gun control. It irks her that Virginia still allows gun shows to sell guns without background checks to weed out buyers who are criminal or insane. But she admits that the gun nuts occasionally have a point. Armed students do sometimes subdue school shooters. Ms Roy lists examples. Whether more guns on campus would lead to fewer deaths, as some claim, or more, as others insist, is impossible to prove. There are too many confounding factors, and too few school shootings, thank heavens. In any case, the gun nuts' thesis is unlikely to be tested. Few teachers would feel comfortable

in a gun-filled classroom. How do you give an “F” grade to an armed adolescent?

Another popular argument, after Virginia Tech, was that the media were partly to blame. The killer had watched coverage of a previous massacre, at Columbine High School in Colorado, and decided to copy it. He also wanted to be famous. He filmed himself posing with guns and spouting an incoherent manifesto of grievances. Between his first two murders and his last 30, he posted the footage to NBC, a television channel, hoping they would broadcast it. They obliged. He thus became an icon to other deranged loners. A young man with a large collection of guns was arrested in Nevada last year after he sent threatening e-mails to two women whom the Virginia Tech killer once harassed. His lawyer said he was just trying to start a discussion about school violence. He is about to go on trial.

Ms Roy agrees that some of the reporters covering Virginia Tech were insensitive. (Lexington was there. It was bedlam.) And making killers famous surely encourages copycats. But Ms Roy cautions against a rush to judgment. The media allowed people at Virginia Tech to find out what was going on in real time—no small service. And investigative reporting, she argues, helps to hold institutions accountable. She thinks the university’s leaders should have been more open about their failure to provide the killer with adequate counselling, among other things. Given the risk of lawsuits, it is hardly surprising that they clammed up.

The massacre produced at least one hero: Liviu Librescu, a 76-year-old Holocaust survivor who sacrificed his life to save his pupils by barring a door with his body while they escaped through a window. The media eulogised him, but obviously could not interview him. They could talk to Ms Roy, however. And since she had sounded an early warning about the killer, urging him to get counselling and sharing her fears about his mental state with the university, reporters beat a path to her door.

What to do?

With hindsight, it is easy to blame the university for not taking her concerns more seriously. But what, exactly, should it have done? The warning signs were hardly conclusive. Until the last two-and-a-half hours of his life, the killer committed no crimes. He stalked some female students, but they did not press charges. When Ms Roy first heard about the massacre, she did not guess that the killer was her former pupil. He was not the only creepy young man on campus. Ms Roy describes another student who scared people by, for example, anonymously posting a poem celebrating the rape of a disabled woman to a teacher’s door. As far as Ms Roy knows, this student never hurt anyone. “The assumption that it is easy to identify potential threats is faulty; almost all the students who write about homicide have absolutely no intention of killing anyone,” she says.

Virginia Tech now has better locks on classroom doors and a brightly-lit ticker telling staff and students what to do in an emergency. But there is no reliable way to prepare for the unpredictable. And that, alas, is the only lesson to be drawn from April 16th 2007.

Economist.com/blogs/lexington

The Summit of the Americas

The ghost at the conference table

Apr 8th 2009
From The Economist print edition

Barack Obama will inject a new cordiality into relations with Latin America, but he will be judged on what he does on Cuba

Illustration by Peter Schrank



THE last time the heads of government of the Americas got together, at the Argentine resort of Mar del Plata in November 2005, it was a fiasco. At a protest rally of 25,000 organised with the help of the hosts, Venezuela's Hugo Chávez spent more than two hours denouncing the United States and its plans for a Free-Trade Area of the Americas (FTAA). At the meeting itself, 29 countries backed the trade plan, moribund though it was, and Mexico's president gave Mr Chávez a public earwigging. George Bush and Brazil's Luiz Inácio Lula da Silva left early and Argentina and Uruguay were not on speaking terms.

So the first aim of many of the 34 leaders who are due to assemble in Port of Spain, the capital of Trinidad and Tobago, between April 17th and 19th, is to preserve the diplomatic niceties and create a better atmosphere in the Americas. In this they may well succeed. For the region's political landscape has changed. Most obviously, the United States now has in Barack Obama a president who is as widely admired in Latin America as Mr Bush was disliked. Mr Chávez is on the defensive, his socialist economy wounded as badly as any other by the world recession. The most divisive issue concerns the one country that is not invited. Latin America is now united in wanting to end the diplomatic isolation of Cuba, and many would like the United States to lift its long-standing economic embargo against the island.

That is because a transition of sorts is under way in Cuba, with Raúl Castro replacing his brother Fidel as president, even if there are no signs that this change will be matched by democracy supplanting communism. It is also because Latin America's many left-of-centre governments, to varying degrees, see friendship with Cuba as an issue of symbolic importance.

But for the United States, Cuba is a matter of domestic politics (as are nearly all the other issues that matter to Latin Americans, such as drugs and immigration). Mr Obama was poised to announce, ahead of the summit, the scrapping of curbs imposed by Mr Bush on visits and remittances to the island by Cuban-Americans. He may also allow American companies to sell Cuba communications gear, such as an undersea fibre-optic cable, according to an administration official.

Many Americans would like him to go further. Bills introduced last month in both houses of the United States Congress with strong bipartisan support would allow all Americans to travel to Cuba. Another would ease food sales to Cuba, already allowed under cumbersome conditions. But most supporters of these bills stop short of wanting to scrap the embargo altogether while Cuba still lacks political and economic freedoms. And an influential minority in the Democratic party opposes any change in policy.

In Trinidad, many Latin Americans are likely to call for Cuba to be readmitted to the Organisation of American States (OAS), which suspended its membership in 1962. That is not straightforward, since the OAS in 2001 committed its members to embrace and defend democracy. But as Peter Hakim of the Inter-American Dialogue, a Washington think-tank, points out, the governments could ask the OAS to undertake exploratory contacts with Cuba that fall short of its formal readmission.

Whether or not Mr Obama manages to defuse the Cuba question before arriving, he will be the centre of attention in Port of Spain. Since taking office he has held bilateral meetings with Brazil's Lula and with Canada's Stephen Harper. He saw Mexico's Felipe Calderón in January, and plans to visit him on his way to Trinidad. But for most of the other leaders it will be their first chance to meet Mr Obama.

Any substantive discussions will start with the financial crisis. Five of the region's leaders were at the G-20 meeting in London earlier this month. There may be more talk of mobilising emergency funds from the IMF and regional development banks. According to Jeffrey Davidow, an experienced diplomat brought in to co-ordinate American preparations for the summit, Mr Obama will "focus on social inclusion and equity". Those are themes that resonate with many Latin Americans.

So does co-operating on alternative energy and dealing with climate change. But this will not include any commitment from the United States to lift its tariff on Brazilian ethanol. Many Latin Americans would like to rethink the "war on drugs", which they see as failing. Instead, there may be talk of beefing up anti-drug aid to Central America and the Caribbean, because of evidence that Mexico's crackdown on drug gangs is driving the trade to neighbouring countries.

Caribbean leaders, many of whose economies are acutely vulnerable to the financial crisis, are requesting a separate meeting with Mr Obama. For Trinidad, the summit is a chance to promote itself as a Caribbean hub. But it is a small one: with hotels swamped, many summiteers are staying in specially-chartered cruise ships.

Administration officials insist that Mr Obama is keen "to listen" to the neighbours. Brazil stresses that the Americans should respect the political "diversity" of Latin America. Whether some of the more radical leftist leaders in the region will be conciliatory is not clear. Mr Chávez is meeting several of his allies in Venezuela prior to the summit. While saying that he wants to "reset" Venezuela's relations with the United States, he may also try to stage a political ambush of Mr Obama.

Even if all goes more smoothly than in Mar del Plata, the balance of power in the Americas has subtly changed. Brazil has become more assertive, and its priority is to be the dominant power in South America. For Brazil, the summit is a "non-event", says Rubens Barbosa, a former Brazilian ambassador to Washington. It sees the Summits of the Americas—the first one was called by Bill Clinton in 1994—as an American rather than a Brazilian project, indissolubly linked to the doomed FTAA.

Under Mr Calderón, Mexico wants to play a more active role in the region, but is preoccupied with drug violence and recession. Brazil and Mexico often see each other as rivals rather than allies. But the summit may confound those who exaggerate the declining clout of the United States in the region. "The summit is a one-man show. The spotlight is on Obama. Nobody else matters," says Mr Hakim.

The trial of Alberto Fujimori

An elected strongman brought to book

Apr 8th 2009 | LIMA
From The Economist print edition

A victory for the rule of law

HE WAS widely credited with having saved his country from economic collapse and a murderous guerrilla insurgency. But for Alberto Fujimori, Peru's president from 1990 to 2000, the end always justified the often-authoritarian means. On April 7th he became the first elected Latin American president to be found guilty of human-rights abuses by a court sitting in his own country.

After a televised trial lasting 16 months, three judges unanimously found that Mr Fujimori had known about and authorised the activities of an army death-squad, known as the Colina group, which killed 15 people attending a barbecue at a house in Lima in 1991 and kidnapped and murdered ten people from a teacher-training college the following year. These killings occurred as the army was battling the Shining Path Maoist terrorist group. His knowledge of the death squad made him the "indirect perpetrator" of these killings, the court ruled. He was also found guilty of two brief kidnappings of opponents by intelligence agents. The court sentenced him to 25 years imprisonment. He immediately appealed against the verdict.

Mr Fujimori was extradited in 2007 from Chile, where he had flown from voluntary exile in Japan in the hope of launching a political comeback. He is already serving a six-year sentence on charges of abuse of power. He faces three further trials, one for misuse of public funds.

In a lengthy address to the court this month he accused his prosecutors of failing to "distinguish between hate and evidence". But human-rights groups said that the trial had been fairly conducted. "This trial has shown that the law is the same for everyone, including ex-presidents," said Avelino Guillén, the prosecutor.

Reuters



Fujimori and the judges he scorned

For most of his decade in office Mr Fujimori was hugely popular among Peruvians. Previously a little-known university rector, he won a presidential election in 1990, defeating Mario Vargas Llosa, Peru's best-known novelist. He tamed hyperinflation, opened up the economy and launched two decades of rapid economic growth. With the help of the population, the Shining Path was crushed. When a smaller guerrilla group kidnapped 72 people attending a reception at the Japanese ambassador's residence in Lima in 1996, he organised a dramatic rescue after a four-month siege.

His methods were often heavy-handed. In 1992 he used troops to shut down the Congress and the courts. His intelligence chief, Vladimiro Montesinos, who is serving a 20-year jail sentence, systematically bribed potential opponents. Mr Fujimori's regime collapsed after he illegally sought a third term, winning a rigged election in 2000. Investigators found that more than $1 billion was stolen from public funds and

stashed in secret accounts during his rule.

In finding him guilty, the court rejected his claims that he was ignorant of the crimes of Mr Montesinos and of his army chief, General Nicolás Hermoza (who is also in jail). Mr Fujimori complained of a double standard, noting that more people were killed under his predecessor, Alan García, who is Peru's current president.

As his misdeeds have been revealed, Mr Fujimori has lost public support. Polls have found that around 70% of those asked thought he was guilty. But his daughter, Keiko, is one of several contenders for the 2011 presidential election. She says that if elected she would pardon him.

Democracy has often struggled in Peru, and the country has suffered from the patchy application of the rule of law. Despite his achievements, Mr Fujimori exacerbated these flaws. Peruvians must hope that the court's verdict marks a lasting triumph for the law.

Venezuela's endangered democracy

Revolutionary justice

Apr 8th 2009 | CARACAS
From The Economist print edition

A crackdown on the opposition

AFTER winning a referendum to abolish presidential term limits on February 15th, Venezuela's president, Hugo Chávez, said he was embarking on the "third phase" of his "Bolivarian revolution". On the evidence so far, one of its main traits will be the repression of dissent and the concentration of even more power in Mr Chávez's own hands. As a result, Venezuela's democracy is in "serious danger of collapse", the country's Catholic bishops said in an Easter message.

The government is picking off its main opponents one by one. Manuel Rosales, the mayor of Maracaibo, Venezuela's second city, and the opposition's defeated candidate in the 2006 presidential election, has gone into hiding to avoid arrest on corruption charges. The government claims he has left the country, although his family and his lawyers deny this.

Officials say he should defend himself in court. But since Mr Chávez has said he would personally jail Mr Rosales, he can hardly expect a fair trial. The president already controls the judiciary. But a bill soon to become law sets up a new executive-dominated judicial commission which would rank higher than the supine supreme court.

On April 2nd, General Raúl Baduel, a former defence minister, was arrested at gunpoint in front of his wife by military-intelligence agents. Also accused of corruption, he was a key ally of Mr Chávez but has been treated by the regime as a traitor since he went into opposition 18 months ago. Several other opposition leaders, as well as former *chavista* politicians, face similar accusations. Others have been banned from standing for election on the same grounds. Yet Mr Chávez shows no inclination to investigate the many claims of corruption concerning his government.

He has been even less subtle with Antonio Ledezma, an opponent who was elected mayor of Caracas last year. His offices have been taken over by *chavista* mobs. A law is being rushed through parliament to render his post largely symbolic, by creating a powerful, appointed vice-president for Caracas. According to Mr Ledezma, the government "is acting outside the constitution," while the courts are more like "firing-squads".

He was referring in particular to the sentencing on April 3rd of three of the capital's former police chiefs to 30 years in jail without parole. Accused, without evidence, of complicity in the murder of several *chavistas* who died during a coup attempt in 2002, they have already spent years in windowless cells.

The government also has plans to tighten legal controls on the media. New government-controlled workers' councils will undermine the trade unions. A planned "international co-operation law" would make it hard for human-rights groups to obtain foreign funding.

Mr Ledezma this week tried to deliver a letter to parliament protesting against the new law for Caracas. He was halted by security forces, tear-gassed and sprayed with a red liquid. Tarek el Aissami, the interior minister, said he should have sought written permission—to march through the streets he is supposed to be governing. One way and another, Mr Chávez is doing his best to prove the bishops' point.

Chagas disease

Kiss and kill

Apr 8th 2009 | BUENOS AIRES
From The Economist print edition

A deadly and neglected plague

A HUNDRED years ago Carlos Chagas, a young Brazilian doctor, precociously pulled off the unique feat of completely describing a previously unknown disease. He showed how the often-fatal infection that now bears his name is transmitted as a single-celled parasite which is carried by insects that typically bite their sleeping victims on the face (and are thus known as “kissing bugs”). This month the centenary of his discovery will be marked with a scientific conference in Belém, in the Brazilian Amazon, while an opera about Dr Chagas opens in July in Rio de Janeiro.

The publicity is welcome. Chagas disease kills more Latin Americans than any other parasitic illness. But it remains little known. About 18m people suffer from it, of whom roughly a third will develop fatal heart and bowel problems. The data are woolly, but by one estimate it is responsible for the loss of more than two and a half times as many years of healthy life in the region as malaria, leprosy, bilharzia and leishmaniasis combined.

Why is more not done? Partly because the symptoms of Chagas can take decades to develop. In Argentina, for example, the incidence of Chagas has been rising in the northern provinces in the hot Gran Chaco since 2001. But Argentines worry much more about a recent outbreak of dengue fever which has reached Buenos Aires.

Donors wrongly think of Chagas as yesterday’s cause and have cut budgets to combat it. There have indeed been improvements, especially in South America’s southern cone. Large-scale spraying with insecticide of the walls and thatched roofs of adobe houses where the kissing bugs live has reduced their numbers.

But not everywhere: in Bolivia up to 70% of children in rural areas have Chagas. Because the bugs themselves can pick up the parasite when biting an infected person, the southward flow of Bolivian migrants has contributed to the rise of the disease in northern Argentina, where up to a quarter of rural children are now infected. Central America is blighted, too. Chagas has returned to Mexico, especially its poor southern state of Chiapas.

Since the 1970s two drugs have been available that can cure Chagas, but only reliably so in its early stages. Prevention is crucial. A project to improve housing and awareness of the disease, funded by Canada’s International Development Research Centre, halted infection in San Francisco de Opalaca, a poor district of Honduras, as well as curing 87% of childhood cases.

But there are new threats. Tania Araújo-Jorge of the Instituto Oswaldo Cruz, a research centre in Rio de Janeiro, points out that bugs in mud huts in the Chaco have become resistant to commonly used pesticides. In Brazil, insect faeces in homemade fruit juice have spread the disease. Chagas is also springing up in the Amazon, where different insects are acting as vectors, she says. For the first time Chagas also seems to have moved to urban areas, such as Arequipa, Peru’s second city.

Coming up with a better cure will not be easy. Latin America’s pharmaceutical market is less than a tenth of the size of that of the United States and most Chagas sufferers are poor and live in remote areas. So a joint effort by donors, governments and private researchers may be needed.

Sri Lanka's war

Out of the Tigers' cage

Apr 8th 2009 | COLOMBO
From The Economist print edition

The government is on the cusp of completing a famous victory against Sri Lanka's Tamil rebels. Now it needs to avert a massacre, and make peace

Reuters



AFTER a terrible battle on April 3rd-5th, Sri Lanka's surviving Tamil Tigers withdrew to a government-designated "no-fire zone"—a narrow beach, packed with refugees, on the country's north-eastern coast. The army claimed to have killed 525 of the rebels, including two fierce women commanders, Vidusha and Durga. Killing (or capturing) their leaders, above all Velupillai Prabhakaran, the Tigers' supremo for three decades, is now the last big goal of a brutal, but brilliantly successful, two-year campaign. It may not be easy.

In the past three weeks over 20,000 civilians have escaped the battlefield. Another 7,500 sick and wounded, and their close relatives, have been evacuated by the International Committee of the Red Cross (ICRC), which reckons there may still be 150,000 on the beach. The Tigers will not let them leave. A few would-be fugitives have been shot dead. Many more may be loth to put themselves into government hands, because of ties to the rebels. And the army has not done much to allay their fears. It has tried to ensure safe passage to the escapees; yet, to return the Tigers' fire, it has allegedly shelled the "no-fire zone". Most of the evacuees, taken off the beach aboard small fishing-boats, have been wounded by shellfire. The UN's human-rights chief, Navi Pillay, has suggested both sides may be guilty of war crimes. The UN, as well as India, America and other countries, has for weeks urged the government of President Mahinda Rajapaksa to hold fire until the civilians are removed.

In fear and loathing of Mr Prabhakaran, a practised escapologist and manipulator of international opinion, the government has largely ignored them. Amid a surge of ethnic nationalism among the Sinhalese majority, which it has stirred, such calls are taken as proof of Western countries' inveterate bullying and support for the terrorist Tigers. Trapped on a battlefield, with water from just a few brackish wells and little food for weeks, the refugees have received scant sympathy in the Sinhalese press. But nor does the government, in the war's twilight weeks, wish to commit a massacre.

Having reached the no-fire zone, the army claims to have stopped firing, and to be plotting a massive "rescue operation". This is not entirely comforting. Gotabhaya Rajapaksa, the defence secretary and one of three presidential brothers in the government, recently told foreign diplomats how much he admired Russia's efforts in 2004 in the North Ossetian town of Beslan—where more than 300 hostages held in a school were killed in the rescue effort. Only Russia's ambassador, whose country has, with China, blocked

serious discussion of the war in the UN Security Council, nodded his approval. But the army hopes to avoid such action. It thinks the refugees will soon try to break out, and that the Tigers, reduced, it says, to 200 hardened fighters plus some raw recruits, will be unable to stop them. It is hard to know how realistic this is. But even if the Tigers could hold out much longer—which seems unlikely—they may not do so. The Tamil diaspora, which pays their costs, and has been staging protests in London and elsewhere against the army, is said to be growing uneasy with their tactics.

Other hazy signs suggest the government is starting to worry about its bad press. At Vavuniya, it has corralled 60,000 Tamils, inhabitants of the Tigers' former fief, into makeshift camps, ringed by razor-wire. It is building more camps for the rest. The Tigers will hope to continue their struggle underground, among these people, so it is understandable the government will monitor them. Yet its initial plan, to release no intern under the age of 65 for a year or more, showed a stunning disregard for its Tamil citizens.

The government has since said it plans to begin releasing the interns by the end of this month. In the past two weeks, it has also given the ICRC limited access to its screening of those escaping the war-zone. But it continues to use international condemnation of its war methods—allegedly including grave human-rights abuses—to rally domestic support. Indeed, its wariness of meddling foreigners is genuine, which is why it has denied the ICRC visas it needs to replace exhausted foreign staff.

Among Sinhalese and some Muslims, Sri Lanka's third main group, the war is popular, despite its heavy toll. (In December the government admitted to having lost 3,800 troops from June 2006 to the end of 2008. The army claims to have killed 20,100 Tigers in that period.) This has ensured victory for Mr Rajapaksa's ruling coalition, the United People's Freedom Alliance, in several provincial elections—and gives it a good chance of winning a poll in Western Province, the country's richest, on April 25th. But to tackle two pressing post-war problems, the dire state of the national economy and the bitter ethnic division underpinning the Tigers' struggle, Mr Rajapaksa must broaden his appeal.

On the first count, he will have to heed his foreign critics. To avert a solvency crisis, the government last month admitted that it has asked the IMF for a loan of $1.9 billion. To soften the embarrassment of returning to the fund, which the government drove away in 2007, Mr Rajapaksa claims the money will come with no strings attached. But if the government does not accept a weaker rupee, which it has defended ruinously, and cut its budget deficit, the money may not come at all. However, it is the second count that is Mr Rajapaksa's greatest challenge: reaching a political settlement with Sri Lanka's marginalised, intimidated and livid Tamils. If he masters it, he will be remembered for bringing peace to Sri Lanka; otherwise, for war.

Pakistan's extremists

The slide downhill

Apr 8th 2009 | ISLAMABAD
From The Economist print edition

In the world’s most dangerous place

Correction to this article

THE prognoses for Pakistan’s future grow grimmer by the day. It is, said President Asif Zardari this week, “fighting a battle for its own survival”. In the latest violence 24 people were killed on April 5th in a suicide-bomb attack, calculated to foment sectarian hostility, on a Shia mosque in Chakwal in Punjab province. The day before, eight troops were killed in a similar attack in the capital, Islamabad, and a suicide-bomber drove a vehicle into a group of civilians in the tribal area of North Waziristan, killing at least eight.

EPA



Moderates on the march

Responsibility for the attacks in Chakwal and Islamabad was claimed by the Fedayeen al-Islam, a group led by Hakimullah Mehsud, a powerful deputy to Baitullah Mehsud, the leader of the Pakistani Taliban. The spate of attacks came a week after Baitullah Mehsud orchestrated a suicidal commando attack on a police training school in Lahore, in which eight police were killed and over 90 wounded.

Terrorist attacks have killed more than 1,700 Pakistanis since July 2007. Malik Naveed, the inspector-general of police of the insurgency-hit North West Frontier Province (NWFP), said this month that Taliban groups had merged with al-Qaeda and were spreading rapidly across the country.

President Barack Obama’s new regional strategy puts Pakistan at its centre. Admiral Mike Mullen, the chairman of the Joint Chiefs of Staff, and Richard Holbrooke, the special envoy to the region, visited Pakistan this week. At a dinner for journalists the two men conceded that America was not winning in Afghanistan but seemed at odds over whether it was actually losing.

American prophecies for Pakistan are no more optimistic. A recent report for the Atlantic Council, an American think-tank, gave warning that “time is running out” for Pakistan. Separately, David Kilcullen, an adviser to the Bush administration, has said Pakistan might face “internal collapse” within six months. Mr Obama has dubbed the Afghanistan-Pakistan frontier the world’s most dangerous place. Yet Pakistani officials criticise America for conducting a “transactional relationship” with Pakistan and demand that it shift towards a strategic alliance. America’s coffer of goodies is big: $1.5 billion in aid for each of the next five years and nearly $3 billion in counterinsurgency military aid. But mutual distrust prevails. American officials deem Mr Zardari corrupt and impotent, and accuse military intelligence of colluding with the Taliban.

At dinner, Admiral Mullen repeated the long-held view that the Taliban leadership is hiding in the province of Baluchistan. In turn, Pakistan is deeply suspicious of America’s plans for India to play a central role in the region. Far-fetched rumours that 150,000 Indian troops are to be deployed in Afghanistan are rife in Islamabad. More plausibly, Pakistani intelligence officials accuse India of fanning a burgeoning nationalist insurgency in Baluchistan.

The sense in Pakistan that the country has entered a downward spiral is palpable. It was enhanced by video footage of a 17-year old girl being flogged by an Islamist militant for being caught in the company of an unrelated man. The incident took place in Swat in NWFP, but reports conflicted over whether it was before or after the government signed a peace deal with militants in February. Officials blamed a Western conspiracy to scupper the deal. This week 100 Taliban marched from Swat into neighbouring Buner and killed a tribesman. And the police found the bodies of three Pakistani women who had been working on an education project in Mansehra, near Swat. In a statement, Mr Zardari insisted the government would not

succumb to any pressure by militants. But doubts about his mettle are mounting.

Correction: we originally wrote that David Kilcullen wrote the report for the Atlantic Council. In fact he was not involved. Sorry. This was corrected on April 9th 2009.

Afghanistan's new militias

Self-defence

Apr 8th 2009 | JALREZ DISTRICT, WARDAK PROVINCE
From The Economist print edition

A victory of hope over experience?

AFP



The Taliban await a new foe

THE commander of NATO forces in Afghanistan, General David McKiernan, offered a bristling salute and plenty of encouragement as the first 240 volunteers for the Afghan Public Protection Programme (AP3) graduated from training in late March. There are great hopes riding on what he called "purely an Afghan initiative", which seeks to emulate the startling impact of the "Sons of Iraq" experiment. But the programme has many sceptics.

It is very loosely modelled on the tradition of village militias in some parts of Afghanistan known as *arbakai*. Trials are taking place in the restive province of Wardak, south of Kabul, where a total of 1,200 AP3 volunteers are to be deployed. Local councils of tribal elders, established last year and paid by the government, have been asked to provide young men to undertake "static defence tasks" in their district.

Such militias are meant to provide a layer of local security alongside a sharp increase in Western (mainly American) forces and a near-doubling of the Afghan army. A NATO summit on April 4th endorsed America's new strategy that combines the intensified security effort with building up the government and economy. European allies cobbled together some 4,000-5,000 more troops, gendarmes and other trainers for the army and police. America is adding 21,000 troops.

The declared aim is "Afghanisation". Can it work? The NATO fund to support Afghan forces requires $2 billion a year, but has raised only $100m so far. And many Afghans compare the AP3 initiative to militias raised in the late 1980s, the final years of the Soviet occupation. Haji Mahmood Aaka, an elder from Narkh district in Wardak, says the Soviet Union realised its own forces could not defeat the mujahideen and so tried similar militias. It backfired: they "toppled the government they were supposed to defend."

Another discouraging precedent is the Afghan National Auxiliary Police (ANAP), a disastrous 2006 initiative to boost the security forces in unstable districts by enrolling local youths vetted by tribal elders. The result was a barely trained and rarely paid adjunct to the unpopular National Police. Full of petty criminals and drug addicts, many of whom defected or sold their equipment to the insurgents, the ANAP was abandoned a year later. This time vetting is more thorough, training lasts three weeks instead of one, pay is higher, and AP3 units are promised mentoring and close support by American forces. Their role is local defence, not law enforcement.

This week, in driving sleet, the first force on the ground, 183 men deployed in the picturesque district of Jalrez, were occupying a series of checkpoints. The force commander, Sayed Abbas, said local villagers were supportive, but US forces were less so. And he complained that their issued AK-47s were malfunctioning Czech imitations and his men had to rely on locals for food and shelter. The fear is that the AP3 groups, if not closely watched, may swiftly become criminalised and prey to existing local factional disputes. In Wardak these include rifts dating back to the civil war of the 1990s, and a feud between ethnic Hazaras and Kuchi nomads over grazing rights.

As a first step, the force in Jalrez is not a hugely cheering model. It includes only 30 Pushtuns, although they are the main ethnic group in the area. Commander Abbas says they failed to offer their sons and, consequently, their areas of the district will not be defended. The provincial governor, Mohammad Halim Fidai, counters that the local Pushtuns were initially intimidated by the Taliban, an overwhelmingly Pushtun group, into not contributing, but have since promised another 50 men. He describes the Taliban as “very frightened” by the new force.

Chinese unemployment

Where will all the students go?

Apr 8th 2009 | BEIJING
From The Economist print edition

This year alone, more than 6m new graduates are knocking at the door

THE lecture theatre at the Beijing Institute of Technology is full to overflowing, obliging unfortunate latecomers to hover by the nearby lavatories. Graduation is three months away and students are desperate to compete for the posts on offer at a job fair. After listening to introductory speeches they surge to place their CVs next to company nametags. One rapidly growing pile is for a telemarketing job paying less than a third of the city's average wage. The aspirants are software engineers.

The global financial crisis could hardly have struck China's university campuses at a worse time. Even before economic growth began slowing last year, graduates had been having a tough time getting jobs thanks to a surge in college enrolment. This year 6.1m students will graduate from Chinese universities, nearly six times as many as in 2000. Next year the figure is expected to rise to about 7m. In 2011 it will reach a peak of nearly 7.6m according to *Beijing Evening News*, a state-owned newspaper.

Campus stability has long been a worry to China's government. Students took a leading role in several outbreaks of pro-democracy unrest in the 1980s, including the Tiananmen Square protests of 1989. Student demands for political change have been rare since then, thanks largely to an improvement in career prospects brought about by the economic take-off and the freeing of state controls. (In the 1980s, graduates had to accept the jobs they were assigned by government.)

But campuses still occasionally erupt, as in 1999 after NATO's bombing of the Chinese embassy in Belgrade, for example, and in 2005 in anti-Japanese protests. A deputy governor of the north-western province of Shaanxi, Zhu Jingzhi, gave warning in February that maintaining stability on campuses this year would be "even more complicated than before" because of graduate unemployment and a "concentration of sensitive dates". She was referring, among other things, to the 20th anniversary in June of the Tiananmen crackdown.

In recent weeks the government has therefore announced various measures to cushion the blow for graduates. They can get loans of up to 50,000 yuan ($7,300) to start their own businesses. Companies that employ them can also qualify for loans and earn tax breaks. Graduates who join the army or who take up jobs in poor, remote areas of western China will get their university tuition fees refunded by the government. Most cities have been told that for graduates they should waive residency requirements that restrict hiring from beyond their own municipalities.

In 2006 the government was already trying to find something useful for graduates to do by encouraging them to take up jobs in villages as assistants to rural officials. They were promised preferential treatment after three years in the countryside when applying for civil-service jobs or for places in graduate school. Beijing municipality, which includes a large rural hinterland, says it has already fulfilled its goal of installing two graduates in every village. Last year there were 17,000 applicants in the city for 3,000 such posts. Now the government worries that the first to enroll in this scheme are about to finish their three years and return to seek their employment rewards. In Beijing, officials have urged them to extend their contracts.

The government might draw comfort from a growing interest among university students in joining the Communist Party. In some colleges most of them have put in applications. More than 8% of students are now members, compared with just over 1% in 1990. As party literature laments, however, this is often far less about love for the Communist cause than it is about burnishing credentials. In the Beijing Institute of Technology, a student at the job fair brandishes a CV with the eye-catching words "Communist Party member" at the top.

China and the G20

Taking the summit by strategy

Apr 8th 2009 | BEIJING
From The Economist print edition

Viewed from home, China and its president, Hu Jintao, had a good G20

THE photograph said it all. Leaders of the world's biggest economies lined up for the cameras before working out ways of tackling the global financial crisis. There in the middle of the front row, in what the Chinese press construed as the most honoured position to the right of the British prime minister, Gordon Brown, was President Hu Jintao of China. The state-controlled media loved the implicit message. China had taken centre stage.

AP



The G2 and a few hangers-on

For China the purpose of the G20 summit in London on April 2nd was as much about nudging into place a new alignment of global power as it was about solving the world's economic problems. In recent years its leaders have been happy, along with those of other large developing countries, to be invited to summits of the G8 group of industrialised economies. But it has shown no interest in formal membership, not least for fear of being in a room full of (mostly) rich democracies.

The G20, with more than half of its members from the developing world, is a setting in which China feels far more at ease. The convening last November of the first heads of government meeting of the G20 in Washington, where Mr Hu stood to the left of then President George Bush, provided a new springboard for Chinese diplomacy, just at a time when China's policymakers were beginning to sense that economic disarray in the West could be turned to China's strategic advantage.

In London China pressed that advantage most visibly with France, which during the past year has been singled out for opprobrium by Chinese nationalists. Before the G20 gathering, China had not scheduled a meeting between Mr Hu and his French counterpart, Nicolas Sarkozy, even though Mr Hu was to hold bilateral talks with other world leaders, including his first encounter with Barack Obama.

Mr Sarkozy's offence had been to meet the Dalai Lama last December. This was the last straw for China after unruly protests by Tibet supporters against an Olympic torch relay through Paris in April 2008 and a threat (unfulfilled) by Mr Sarkozy the previous month that he might boycott the opening ceremony of the Beijing Olympics in August 2008 because of Chinese behaviour in Tibet. China responded to his meeting with the Dalai Lama by aborting a summit with European Union leaders due to be hosted by France. It is now to be held in late May in the Czech Republic, which has taken over the rotating EU presidency.

Mr Hu's speech to the G20 was entitled "Co-operating hand-in-hand, pulling together in times of trouble". But it was only after France had agreed to issue an unusual joint statement with China, setting out the French position on Tibet, that Mr Hu arranged a separate meeting with Mr Sarkozy in London. In the

statement, France said it did not support Tibetan independence in "any form" and that it regarded Tibet as an "inseparable" part of China. It fell short of a promise not to meet the Dalai Lama again, but China was clearly pleased by such a formal, explicit rejection of Tibetan independence by a Western power.

Mr Sarkozy, it appears, did not cave in entirely to Mr Hu. During the summit itself the two leaders sparred over whether the G20 should publish a blacklist of tax havens. Mr Hu objected to the idea (apparently fearing that Hong Kong and Macau might end up being tarred). In the end, Mr Obama took them aside separately and got them to agree that the G20 should merely "note" a list of such havens published by the Organisation for Economic Co-operation and Development. The list did not name the two Chinese territories.

In the build-up to the G20 meeting, Chinese officials had been unusually forthright about the new economic order they wished to see. The governor of the China's central bank, Zhou Xiaochuan, had suggested the use of the IMF's Special Drawing Rights as a new international reserve currency to replace the dollar. He had also pointed out China's "superior system advantage" when it came to making prompt and effective responses to the financial crisis. At the G20 Mr Hu boasted of the currency swaps totalling 650 billion yuan ($95 billion) that China has recently pledged to several countries, including Indonesia, Argentina and Belarus. This could result in more trade with these countries being conducted in the Chinese currency.

Power in reserve

With nearly $2 trillion in foreign currency reserves, China certainly has clout. Mr Hu pledged a loan of $40bn to the IMF, and will expect some dividends when the IMF reviews the voting rights of participants in 2011. China wants a bigger share of them. Mr Hu will be pleased that Western countries appear willing to cede control over appointments of the heads of the IMF and World Bank, traditionally awarded to Europeans and Americans respectively.

But Mr Hu will be satisfied not least with the limelight. Much as Chinese officials coyly dismissed the notion that the meeting of real significance in London was that of the G2—China and America—the official press revelled in the attention he received. *Outlook Weekly*, a magazine published by China's state-controlled news agency Xinhua, chose as its cover marking the London summit a picture of only two leaders, Mr Obama and Mr Hu.

Banyan

In the shade of the banyan tree

Apr 8th 2009
From The Economist print edition

It's time for a column about half the world's people

Illustration by M. Morgenstern



SOME 165 years, 161 years and 114 years since its correspondents first filed reports respectively from Calcutta, Shanghai and Yokohama, *The Economist* this week launches a column on Asian affairs. We have taken a while, but is this not, after all, to be the Asian century? We think probably so.

For some, however, dedicating a column to the idea of Asia is to jump the gun by many years. Lexington writes of a clearly etched polity with a written constitution, Bagehot an unwritten one. A constitution is still not within the grasp of the European Union, but the "European project" provides a justifiable basis for Charlemagne. In Asia, an insipid collection of regional and sub-regional clubs amounts to something far short of a continental project. The last powerful intellectual push for pan-Asianism was promoted nearly a century ago by Rabindranath Tagore, a Bengali Nobel laureate. He was rapturously received on tours in China and Japan, where he urged people to counter Western imperial might and material with sacrifice and an Asian spiritualism.

Yet Tagore was more often rejected. The head of the nascent Chinese Communist Party mocked dreamers like him for seeking to "destroy our railroads, our steamships and our printing presses in order to return to woodblock printing, the canoe carved from a tree-trunk, the wheelbarrow." Imitation of the West seemed wiser than atavism, not least among Japanese, who in the 1930s dressed pan-Asianism in wolf's clothing. Any broader Asian dream must escape from the grotesque shadow of the Greater East Asian Co-prosperity Sphere, the name given to dignify Japan's occupation of its neighbours in the 1930s and 1940s.

That name itself highlights another problem, that of geography. For most of its history, Asia has not just been indifferent to its own existence, as Bill Emmott, a former editor of this newspaper, puts it in "Rivals", his book about China, India and Japan. There has also been confusion about quite where Asia is. For East Asia, Japan's militarists had in mind those places heavily touched by Confucianism (China, Taiwan, Korea and Japan), plus Indochina, the Malay Peninsula and the island states of the Philippines and Indonesia. Yet much of this area is well south of South Asia, big chunks of which are still north of the modern definition of East Asia. Central Asia, belying its label, is on the edge of this space politically as well as physically. The continent, as we noted when we introduced an Asia section in *The Economist* in 1987, is a "geographical accident", stretching for our purposes from Kazakhstan in the north-west to New Zealand in the south-east and from the Maldives in the south-west to the northern tip of Japan.

The suspicion lingers that Asia is a Western construct. Yet the search for an Asian identity is growing. It forms the backdrop to the annual East Asia Summit, held this year in Thailand from April 10th, grouping the ten South-East Asian countries with not just their partners in China, Japan and South Korea but India, Australia and New Zealand as well. The powerful impulse for co-operation is materialism based on rapid economic development: the antithesis of Tagore's invocation. Japan raced down this path to prosperity 150 years ago. At the turn of this century, it looked as though China would have the field pretty much to itself, having brought 250m out of poverty since its autarky ended in 1978. But India was also throwing off many self-imposed shackles, and has since thrust itself forward. And Asia has prospered. If differences in prices among countries are taken into account, its share of world GDP has gone from 26% in 1990 to 38% in 2007.

To many in China and India, this marks a return to historical greatness. There remains a long way to go. Both countries' economies were relatively much bigger before the West's industrial revolution. For now, growth is bringing wealth, respect and freedom of action. The global economic slowdown, however hard it is hitting Asia, may in relative terms serve to bolster Asian influence. After all, the world looks to China as an engine of growth. Japan leads the drive to boost the resources of the IMF as the backstop to national economies in crisis.

Trade is already promoting economic integration. Two-fifths of Asian exports, and rising, are intra-regional even if half that share forms part of a global supply-chain anchored in the West. But the political process may in the end prove even more profound. The region must see that the simultaneous rise of two continent-sized big powers is peaceful. A main issue is whether or when China will seek to regain its historical role as East Asian leader. Another is whether India has definitively left the problems of its subcontinent behind it, or will again be held back by the bitter disputes with its neighbours. The chief Asian project will be to enmesh both countries into a broader set of economic and security norms, while ensuring a continued security presence for the United States, still the region's top dog in military terms. Failure would put paid to notions of an Asian century.

Asian values

So why Banyan? A dearth of pan-Asian images speaks volumes, but the banyan tree serves better than most, for it or similar trees are found somewhere in most Asian countries. The banyan spans Asia's spirituality and its entrepreneurialism. The Bodhi tree, under which Buddha attained enlightenment, was a banyan by another name. Gujarati merchants conducted business under it, and the Portuguese lent their name, banyan, to the tree. It stuck.

In early March, in Perak in Malaysia, the state assembly convened an emergency session under a tree. It was, said outraged national ministers, a return to the jungle, making Malaysia a laughing-stock. We beg to differ. An ancient connection exists between public business and the banyan tree, as between its huge overarching shade and its deep intertwining roots. In South-East Asia, and Java in particular, the shade was a place of learning and a site where rulers vowed justice. Those are Asian values to which Banyan will happily subscribe.

The genocide in Rwanda

The difficulty of trying to stop it happening ever again

Apr 8th 2009 | KIGALI
From The Economist print edition

Fifteen years on, the country is praised for salving the wounds of genocide. Yet that comes at the price of diminishing freedom. And now the economy is faltering

AP



EVEN today, it is almost impossible to imagine how so many Rwandans could have turned into coldblooded butchers. The memorials to the slain that now grace many of the towns and villages in the country provide only small glimpses into the collective insanity that gripped a whole country in April 1994, when the Hutu killers turned on their Tutsi fellow citizens and Hutu sympathisers, leaving over 800,000 dead in three months.

Take the memorial at the National University of Rwanda in Butare, a couple of hours' drive south-west of the capital, Kigali. Under a corrugated iron roof a long board displays the photographs of about 60 students who were killed. In fact, most of the staff and students at the university, over 500 in all, were slaughtered in just two weeks or so; only a few escaped across the nearby borders to Congo or Burundi. Many of the students were killed by their own teachers, specifically the dean of agriculture and vice-dean of political science. The former not only personally killed students but organised the campus massacre as well. What could have been running through their minds in the weeks leading up to the killings, as these highly educated people calculated how best they could hack or shoot their own students to death?

These awful questions haunt Rwanda to this day. It is only a mixed comfort to the genocide's few survivors at the university that those two former academics responsible for many of their friends' deaths are still in prison, just down the road. Some think they should have had a worse fate. But one of Rwanda's main problems, in terms of justice and retribution, has been that so many Hutus, hundreds of thousands of them, became *génocidaires*; it was always going to be impossible to impose the harshest sentences on all of them. Only the ringleaders have been tried by an international court sitting in neighbouring Tanzania. Thousands of others in Rwanda have been sentenced to prison by local traditional courts known as *gacaga.* Gangs of them can be seen in their distinctive overalls, doing hard labour, digging irrigation ditches and so on, all over Rwanda.

They are a constant visual reminder of the crimes of 15 years ago. Indeed, in some ways Rwanda is facing as difficult a struggle today with the legacy of the genocide as at any time since 1994. For it is only now that thousands of former *génocidaires* who have been fighting for many years from bases in the jungles of eastern Congo against the current Tutsi-dominated government are at last returning to

Rwanda.

That they are returning at all is a victory for the long-term strategy of President Paul Kagame's government to bring back the country's previously hostile Hutus from the near abroad. Most of them were put to flight by Mr Kagame's own then-rebel army, the Rwandan Patriotic Front (RPF), that forced an end to the genocide in 1994. They are being re-educated in special camps in the hope that they can be peacefully reintegrated into Rwandan society.

But even if the policy works, it will come at a high price for the Tutsi survivors of the genocide. Freddy Mutanguha, who manages the Kigali Genocide Memorial Centre, is used to dealing with the genocide's consequences. Yet even he found it "too difficult" when two of the returning *génocidaires* moved into his home village of Kibuye a couple of months ago after they came back from Congo. So now his neighbours are two known killers "being fed and protected by the Rwandan government". Mr Mutanguha, understandably, did not want to return to his own home to see them.

Courage and even generosity of spirit in dealing with an awful situation has earned Mr Kagame's government high marks in the West and in Africa as a whole. After all, Rwanda is the only genocide case where the victims, the Tutsi, have chosen to reintegrate their killers into the country and to live as neighbours again—a uniquely hard task, especially in Africa's most densely populated country. In other genocide cases, the victims have left altogether, sometimes to help found a new state of their own, such as Israel, or have been marginalised in their own country, as were the Herero in South-West Africa, now Namibia. To encourage reconciliation, Rwanda has embarked on an experiment to change completely the way a new generation thinks about itself. Now, officially, no one is a Hutu or Tutsi; there are only Rwandans. Ethnicity, the genocide's alleged cause, is being outlawed.



The use and abuse of anti-genocide law

For sure, the government's policy has contributed to a new era of peace; Rwanda, it is generally agreed, is now one of Africa's most law-abiding countries. Yet the reach and ferocity of new laws encouraging reconciliation are making Western donors and many Rwandans queasy. Is the country paying too high a price for its policy?

Critics fear that any challenge to an already authoritarian government is gradually being outlawed under a pretext of criminalising the promotion of so-called "genocide ideology". There were already stiff penalties for "divisionism", an acknowledgment of differences between Hutu and Tutsi. But last year a new and even fiercer law was passed, carrying heavy penalties. Its criminalisation of genocide ideology is so broadly drawn that it could be used to prosecute people for any number of utterances.

Clause three, for instance, states that the crime of promoting genocide ideology is characterised by "dehumanising a person or group with the same characteristics", and that this can be done by "marginalising, laughing at one's misfortune, defaming, mocking, boasting, despising, degrading, creating confusion aimed at negating the genocide which occurred, stirring up ill feelings".

About 1,300 cases involving genocide ideology were initiated in Rwanda's courts in the 2007-08 judicial year, even before the latest law was passed. Human-rights critics say these ill-defined laws are being abused by the government, enabling it to prosecute anyone, including young children, who say anything the government dislikes or who draw attention to the role of Mr Kagame's own RPF in the massacres of 1994. For many, justice has been too partial in post-genocide Rwanda; many of Mr Kagame's men, estimated by the UN to have killed up to 45,000 people between April and August 1994, have got off lightly.

These draconian laws chime with the government's general dislike of dissent. Some foreign critics are now banned from entering the country, however sympathetic they may have been to Rwanda in the past. Alison des Forges was probably the greatest foreign expert on Rwanda until her death in a plane crash in February. She had been the most sensitive and thorough chronicler of the genocide but, as an increasingly vocal critic of Mr Kagame's human-rights record, she was banned last year, her death barely

marked in Kigali. Open political opposition is declining. At elections the formal opposition parties largely mimic the government line and then join the government afterwards. There is little real choice.

Worries about Rwanda's record on human and political rights are now compounded by worries about its economic record. Indeed, they are related. The economic recovery after the genocide, when Hutu militias looted the country before fleeing into Congo, had been remarkable, if largely funded by the diaspora and by foreign aid. But in the past few years it has stalled. The number of Rwandans living in extreme poverty is reckoned to have declined from over 75% in 1994 to 57% in 2006. But the figure has barely moved since then. Because of a rapid increase in population, the absolute number of people in poverty has probably risen.

Rwanda now needs a vigorous private sector to keep the economy moving in the right direction, especially if the country is to meet its lofty goal of becoming east Africa's service hub. The government talks up its eagerness for free enterprise, endearing it to the West, but entrepreneurs, especially from abroad, often feel hamstrung in what they are allowed to do—and so leave. A controlling government will hurt Rwanda's economic prospects as well as its wider freedoms; the two are indivisible.

Nigeria

What if the president goes?

Apr 8th 2009 | LAGOS
From The Economist print edition

Umaru Yar'Adua's ill-health is fuelling dangerous speculation

IN AN office in Nigeria's commercial capital, Lagos, economists scour the morning's newspapers for photographs of President Umaru Yar'Adua, hoping to divine a clue as to his well-being. The global financial crisis and the dive in the price of oil, Nigeria's main export, are forcing the country's businessmen and investors to rethink Nigeria's hitherto unusually hopeful economic outlook. Ministers admit that Nigeria is in for a rough time. The prevailing view, however, is that it should be able to ride out the storm, provided there are no bad political squalls.

But what if the long-ailing president were to die or leave office prematurely? Then, says Bismarck Rewane, a prominent financier, all bets are off. When the departing president, Olusegun Obasanjo, hand-picked Mr Yar'Adua in 2007 to succeed him, the new man's health immediately aroused concern. As governor of a remote northern state, Katsina, he set up a specialist unit in his local hospital to treat a chronic kidney ailment. On the campaign trail, his soft voice and persistent cough contrasted unfavourably with the rumbustious ways of Mr Obasanjo.

AFP



In rude good health?

Since Mr Yar'Adua moved into his presidential villa, a string of long and unexplained trips abroad has fuelled speculation that his health is worsening. When photographers in the federal capital, Abuja, were recently barred from taking close-up pictures of him, rumours reached fever pitch. There were whispers about the effects of smoking on Mr Yar'Adua's lungs. The government's lack of candour on such matters merely fuels the gossip. Ministers have repeatedly insisted the president is hale and hearty, even as he is whisked into hospital in Germany or Saudi Arabia.

A political upset would shake the relative stability Nigeria has enjoyed since the end of military rule in 1999. The economy has grown steadily. Though severe problems remain, Nigeria's poorest are better off and less bullied than they were under the generals. But if Mr Yar'Adua's health worsens, it could threaten the northerners' grip on power and on the lucrative apparatus of government.

Political power in Nigeria is still allotted in back-room deals to ensure that the top job alternates between the elites of the largely Muslim north and Christian south: a "gentlemen's agreement" to allow the ungentlemanly feasting on the country's billions of dollars of stolen and mismanaged oil resources. Nigeria is still one of the world's most corrupt countries.

Mr Yar'Adua, a pious Muslim, succeeded Mr Obasanjo, a southern Christian, in the expectation of serving the maximum two consecutive four-year terms. The northerners think that eight years at the trough were duly agreed. But if Mr Yar'Adua had to leave early, the constitution says that the vice-president, Goodluck Jonathan, would take the helm until elections at the end of the four-year cycle. Mr Jonathan is another southern Christian. The northerners would not look kindly on his accession, even if he had only two years in office. Yet a power struggle at the top could destabilise the country all over again.

Southern Sudan

Fear of fragmentation

Apr 8th 2009 | NAIROBI
From The Economist print edition

A recent fragile peace is under threat



HUNDREDS of women and children were killed last month in Southern Sudan's province of Jonglei, either shot or run through with spears. Some locals put the toll at more than 700. Officials in Juba, the capital of the largely autonomous region of Southern Sudan, say the figure was lower. In any event, a fresh spate of killing now threatens the broad peace that the region has been enjoying—and could even upset the Comprehensive Peace Agreement, signed in 2005 between Sudan's mainly Arab government in Khartoum and rebels in the black African south who had waged a war of independence for most of the previous three decades.

At first it seemed the killings were the result of routine cattle raids by Nuer warriors on the Murle, whom the Nuer accused of rustling thousands of cattle. Such raids usually end in a handful of deaths on either side. But the scale of the Jonglei killings, with the Nuer apparently riddling civilians with gunfire from weapons they were meant to have given up, has cast a pall of gloom over the south. It has not been lightened by the failure of the local Sudan People's Liberation Army (SPLA) to intervene. There have been killings elsewhere in the south too. Some fear the north-south accord is near to collapse.

Southern Sudan's president, Salva Kiir, who is Sudan's national vice-president too, has every reason to play down the Jonglei killings. A slump in oil revenue, which accounts for most of his regional government's budget, as well as corruption in Juba, has left him unable to pay his civil servants and troops. This has led to riots by disabled SPLA veterans and mutinies by soldiers. The border with Uganda, which handles nearly all of Southern Sudan's trade, has been closed by veterans who said they had not been paid for seven months. Mr Kiir had to intervene with cash and grain to end the mutiny. Ugandan lorry drivers stranded on the Sudanese side of the border claimed that the SPLA harassed them.

Since 90% of Southern Sudan's people live on less than $1 a day, tightening belts is not an option. They are as hungry, poorly educated and diseased as the ill-starred people of Darfur. Tribal leaders in the south say competition for water and grazing is adding to the tension between the tribes. Groups such as the Murle will return deaths in kind. The UN says 187,000 Southern Sudanese were displaced by tribal fighting last year. This year the number may double. As the Jonglei slaughter shows, plans to disarm have not been fulfilled. The worry is that the SPLA, a ruthless lot hardened by years of war, will end up taking sides, further unsettling the south and threatening the peace agreement.

Mr Kiir wants to stamp out "tribal spoilers" before national elections next year. Sudan's president, Omar al-Bashir, who was recently indicted by the International Criminal Court (ICC) at The Hague for alleged crimes in Darfur, is nervous about the possibility of Mr Kiir running as a candidate for the national presidency, appealing to voters even in the Arab bits of the country. Mr Kiir has so far been careful not to voice an opinion on the ICC warrant but may try to use it to squeeze concessions from the north—on oil and the Nile waters, among other things—before a referendum in 2011, when the Southern Sudanese will be asked if they want to secede from Sudan to form an independent country, probably to be called New Sudan.

This may put Barack Obama's administration on the spot. American lobbies have concentrated on Darfur, largely to the exclusion of Southern Sudan. A policy review headed by Samantha Power, one of Mr Obama's foreign-policy advisers, may be hard on Mr Kiir even as it endorses the ICC's effort to bring Mr Bashir to justice.

The review may also suggest ways of dealing with the Lord's Resistance Army, a murderous Ugandan militia that was recently hammered—but not defeated—by a joint offensive of Ugandan, Congolese and Southern Sudanese troops, underwritten by the outgoing Bush administration. Many in Juba are terrified that the Lord's Resistance Army may now kill and rape its way through Southern Sudan, perhaps with weapons and training provided by the national government in Khartoum, which remains loth to see the south of the country peeling peacefully away.

Iranian dissidents in Iraq

Where will they all go?

Apr 8th 2009
From The Economist print edition

Iranians in Iraq who fought against the Islamic Republic face a shaky future

"IT WAS one of the strangest places I'd ever seen," says one of the few Farsi-speaking Westerners to have spent weeks in Camp Ashraf, 65km (40 miles) north-east of Baghdad, where some 3,400 Iranian dissidents are hunkered down and are now threatened with expulsion from Iraq, perhaps even back to Iran. It was "like a spiffy midsized town in Iran", with parks, offices and buildings—but no children. It was "sterile, soulless and sad". Nearly two decades ago, families living in the camp were "dissolved", couples were forcibly divorced, and their children sent away, many of them to live with supporters living in the West, to be brought up in the faith of a movement widely described by independent observers as a cult.

For the past six years, the Americans have protected the camp, whose raison d'être is generally opposed by the surrounding Iraqi communities and by most Iranians, whether or not they are for or against the clerical regime in Tehran. But as American troops prepare to go home, the Iraqi government, which wants cosy ties with Iran, now says the camp must be closed and its inhabitants dispersed, probably back to Iran, where they would face an uncertain future, to put it mildly.

The group is variously known as the People's Mujahedeen of Iran (PMOI) or the Mujahedeen-e Khalq Organisation (abbreviated as both MEK and MKO). Founded in 1965 as a youthful underground opposition to Iran's Shah, it was usually described as "Islamic Marxist". When the Shah fell it at first backed Ayatollah Khomeini but soon fell out with him, embarking on a campaign of violence and bombings which, on a single occasion, is reckoned to have killed 70 civilians, including several senior clerics; the withered arm of Iran's current supreme leader, Ayatollah Ali Khamenei, was a result of that bomb. The group's political umbrella is called the National Council of Resistance of Iran.

The PMOI's leader, Massoud Rajavi, fled to France in 1981 but he and his followers, many of them women, relocated in 1986 to Iraq, where Saddam Hussein gave them a big base at Camp Ashraf, which is thought to be around 20km in circumference. Saddam abundantly supplied the PMOI with Brazilian and British tanks (captured from Iran during the war of 1980-1988) and Russian armoured personnel carriers, among other arms. In return, the PMOI made attacks on Iran itself, which is why Iranians of all stripes tend to regard the group as traitors. It is also said to have spearheaded Saddam's attacks on rebellious Iraqi Kurds and Shias in 1991, after the first Gulf war, a charge it strongly denies.

Follow my leader

No less controversially, the PMOI is widely reviled by human-rights groups for nurturing a messianic cult of personality around Mr Rajavi and his wife, Maryam, and for enforcing a totalitarian discipline on its adherents. Several defectors testify, in the words of one of them, to a "constant bombardment of indoctrination" and a requirement to submit utterly and unquestioningly to the cause. No sources of news are allowed without the PMOI's say-so. According to one defector, around 50 members who rebelled were sent to Saddam's prison in Abu Ghraib, west of Baghdad.

Members are completely cut off from contact with their families. When the above-mentioned Farsi-speaking Westerner, who visited Ashraf in 2004, enabled wavering group members to talk to their families in Iran by satellite telephone, some of their parents refused to believe it was their children, for they had been told by the PMOI that they were dead.

No one is sure whether Mr Rajavi is alive but most think not; he has not been heard of since the American invasion of 2003. His wife, known as "the president-elect", travels the world, soliciting support from a wide range of sympathisers, including some in the American Congress, the European Parliament and the British House of Lords. No one is sure who really controls the PMOI in Camp Ashraf. It is thought

that nearly 400 residents have voluntarily returned to Iran, where they are said to have been treated adequately so far. But who can really tell? Several hundred more are seeking refugee status elsewhere. A few dozen have—or rather had—passports to Western countries, some of which have verified their bona fides.

In the past year, the European Parliament and Britain's courts have removed the label of "terrorist" from the PMOI, mainly on the ground that the group says it has disavowed violence, is not known to have carried out any acts of terror since, at the latest, 2002, and surrendered its weapons (at any rate, its heavier ones) at Camp Ashraf after the American invasion. This has irritated several national governments, especially the British and French ones, which think the PMOI is a nasty nuisance and its presence on their soil bad for relations with both Iraq and Iran.

The outfit is still officially deemed a terrorist organisation in the United States but has a fierce lobby there too, backed by a mix of neoconservatives and leftists, that accepts at face value the group's insistence that it is a secular and democratic movement with mass support in Iran and a real chance of eventually displacing the mullahs' regime. Its lobby in Europe is much exercised by recent statements of Muwafaq al-Rubaie, Iraq's national security adviser, who makes it plain he wants the camp disbanded and its people sent abroad, mostly to Iran, whose rulers have become more vociferous in calling its fellow reigning Shias in Baghdad to send them back.

The PMOI has a sophisticated network of ardent supporters. Without a doubt, its voice of despairing outrage will rise to a squeal if the Americans give way to Iraqi and Iranian demands to cut the movement loose. But it may happen.

Getting paid in Iraq

Press the button

Apr 8th 2009 | BAGHDAD
From The Economist print edition

As security improves, modernisation begins slowly to catch up

Illustration by Peter Schrank



PAYDAY in Iraq means taking home a wodge of notes from your boss and shoving it under your bed or into some hidey-hole before finding time to visit your local bank to make a deposit. Even then, your money makes as much interest under the floorboards because the country's banking system is still stuck in the past. All transactions are done manually, withdrawals can be made only from the branch where you hold your account, there is virtually no one to advise you on what to do with your cash and no way to open a high-interest savings account. There are almost no functioning automated teller machines. Plastic cards are barely used at all for shopping or business.

But this archaic system may be poised to change. Iraq's first electronic clearing system has begun to function in Baghdad's main branch of the Rafidain Bank, Iraq's largest lender, which is owned by the state. Salaries can be paid directly into accounts and people can withdraw or deposit at seven other branches abroad also with electronic clearing.

B-Plan Information Systems, a British IT company, installed the system under a contract with Iraq's Ministry of Finance. It aims to convert the rest of the bank's Baghdad branches by September and all of Rafidain's 147 outlets across the country within a year. "For the first time you can transfer money electronically between any working branch," says Shirko Abid, B-Plan's executive chairman, a British Iraqi who also happens to be a Kurd. With 45% of Iraq's banking assets, Rafidain carries a lot of weight: 2m out of Iraq's 29m-odd people bank with it. But other Iraqi banks may have no choice but to go electronic too.

A big snag is a shortage of qualified staff. B-Plan is to train 100 people at the bank but 7,000 are needed. Mr Abid said the training his company is doing is "just a drop in the ocean".

Iraq's overdue conversion to fully electronic banking should help woo investors from abroad and pep up the economy as a whole. Rafidain Bank is sitting on deposits of $15 billion that is far harder to invest without electronic clearing. "It's very hard to manage $15 billion on a calculator," says Laurence

Hargreaves, B-Plan's fresh-faced project co-ordinator. Electronic clearing "will revolutionise the way they work."

Correction: South Africa

Apr 8th 2009
From The Economist print edition

In last week's article on South Africa ("Politics v the law", April 4th) there was a typographical error in the penultimate sentence, in which an opinion poll is said to have found that "Jacob Zuma's popularity is unrented, at least among blacks, who still seem to support him overwhelmingly." "Unrented" should have been "undented". Sorry. This has been corrected online.

An earthquake in Italy

Death in the mountains

Apr 8th 2009 | L'AQUILA
From The Economist print edition

Mourning those lost, with bitter memories of past disasters

Getty Images



IT BEGAN with a roar under the earth and a tremor that lasted for what the mayor of L'Aquila, Massimo Cialente, later called "20 interminable seconds". The epicentre of the most lethal and destructive earthquake in Italy for almost 30 years lay a few kilometres outside the city.

Its shock waves spread through L'Aquila, shaking to the ground a hotel and several apartment blocks. They wrecked a university residence, trapping many students inside. The earthquake gashed solid 18th-century *palazzi* and shook the brickwork out of flimsy structures thrown up in the 1960s. Bridges and viaducts in the city, high up in the Apennine mountains that form Italy's backbone, were left perilously fractured. Beyond L'Aquila, the shock waves ripped through villages, reducing the houses of farmworkers to piles of rubble. They were felt as far away as Naples.

The earthquake that struck the Abruzzo region at 3.32am on April 6th was another grim reminder of how vulnerable Italy is to natural disasters. At least 250 people were killed. Over 1,000 were injured. A single village, Onna, lost 39 inhabitants. As many as 13,000 buildings, including historic and artistic monuments, were damaged.

By April 7th, when most of its population had fled, L'Aquila was like a city that had been extensively shelled: a ghost town in which almost the only sounds were of house alarms, ambulance sirens and the earth-movers of rescue workers. After-shocks, some severe, continued to affect the area, making the rescue workers' task harder and more dangerous. By April 8th the increased deployment of heavy machinery hinted that, in most places, rescuers had given up hope of finding survivors.

Two questions were immediately raised. One was why some buildings crumbled but others did not. Many of those that collapsed were put up before 1980 when Italy brought in stricter regulations for construction in areas of seismic activity. But others were not. Prosecutors in L'Aquila announced that they would investigate to see if there were grounds for bringing charges against those responsible.

The second question was how Silvio Berlusconi's government would cope. Disasters can make or break politicians, as Rudy Giuliani and George Bush could both testify. Mr Berlusconi's initial reaction was both vigorous and sure-footed. He cancelled a trip to Moscow, rushed to the area and toured it in a helicopter.

A day later, he returned to announce the dispatch of 14,500 tents for the homeless. But then he made an ill-judged quip that those huddling in tent cities should think of themselves as being on a “weekend of camping”. He also declined offers of foreign help, insisting that Italians were a “proud people” and prosperous. True, yet the magnitude of the damage is daunting. And the government, which is burdened by a public debt that exceeds Italy’s annual GDP, is constrained over how much it can do.

Some 17,000 people who have lost their homes are being cared for by the government in makeshift accommodation. But the number who are unable to return to their homes until they have been thoroughly inspected is much higher, perhaps as many as 70,000. They too have had their lives fractured and will expect (and deserve) some help.

Mr Berlusconi said that he intended to tap European Union funds, as well as spending some of the cash set aside for construction projects as part of Italy’s response to the global economic crisis. In particular, he said he would like to build the first of a batch of British-style new towns alongside L’Aquila. It could be ready in two years, he said.

Locally, this news was greeted with as much scepticism as hope. Italy’s past recovery programmes have a mixed record. The performance of the authorities following the most recent big earthquake, in Umbria and Marche 12 years ago, was slow but steady. By last September, some 92% of the damaged houses had been made habitable again. But what really haunts the survivors of the latest disaster is the Irpinia earthquake that hit Campania and Basilicata in 1980. It was the prelude to a scandalous case of waste and corruption. Some of the money was diverted to the Camorra, the Neapolitan mafia. Even today some victims are still living in what were intended to be only temporary lodgings.

Past Italian governments did not pay for their bungling because they usually fell before its consequences became apparent. Mr Berlusconi and his ministers expect to be in office until 2013. This time they may well be held to account.

Turkey and Barack Obama

Friends by the Bosporus

Apr 8th 2009 | ISTANBUL
From The Economist print edition

Turkey basks in the glory of a two-day visit by Barack Obama

IT WAS sealed with an embrace. Barack Obama concluded his wide-ranging address to the Turkish parliament on April 6th by kissing the prime minister, Recep Tayyip Erdogan, on both cheeks. That seemed to please his audience of parliamentarians, as did the American president's pledge that his country was "not at war with Islam." He pointed out that many Americans are part of Muslim families, and others have lived in countries where Muslims are in the majority. "I know, because I am one of them," he said, prompting wild applause.

Mr Obama delivered a high-class performance, charming his audience by calling Turkey a "critical" ally and an important part of Europe. Its secular free-market democracy is just the sort of model America hopes might inspire Muslims everywhere. That message was also received by millions tuned into Al-Jazeera's live coverage of Mr Obama's speeches during his two-day tour to Ankara and Istanbul.

Mr Obama's decision to add Turkey to his European tour went beyond confirming (to the joy of Turkey's secular elite) the country's western credentials. It highlighted Turkey's emergence as a regional power that matters and as a large, mainly Muslim member of NATO (tiny Albania, another Muslim country, has just joined NATO as well). After seven years under the mildly Islamist Justice and Development (AK) Party, Turkey enjoys growing influence and popularity in the Arab world.

Turkish support will be critical as America prepares to withdraw from Iraq and switch its focus to Afghanistan. Mr Obama (who went on from Istanbul to Baghdad for a flying visit) reportedly urged Abdullah Gul, the Turkish president, to send more troops to Afghanistan, some of them for combat. Turkey already has 900 soldiers in Afghanistan and is a transit hub for supplies to American troops both there and in Iraq. The Turks have also acted as a conduit for messages between America and Iran as the two countries consider re-establishing dialogue.

Mr Obama's trip comes after a prolonged chill between America and Turkey, prompted largely by differences over Iraq. The Turkish parliament provoked fury, especially in the Pentagon, when it voted in March 2003 against letting American troops use the country as a route for opening a second front in Iraq. America's refusal to take action against separatist rebels from the Kurdistan Workers' Party (PKK) in northern Iraq then fed Turkish anger. Some opinion polls showed support for America in single digits when George Bush was president. But America's decision in late 2007 to provide intelligence on the PKK and to let Turkish planes bomb rebel bases in northern Iraq changed the mood. So, even more, did Mr Obama's election.

EPA



Obliging Obama charms earnest Erdogan

Perhaps the most important change, as Mr Obama acknowledged, is that America has overcome its cold-war habit of engaging mostly with Turkey's generals. As democracy has taken root, public opinion has come to count. Turkey's generals found this out when voters returned the AK for a second term in the July 2007 general election with a thumping 47% of the vote soon after the top brass threatened a coup.

Mr Obama's 25-minute speech to the Turkish parliament offered something for everyone, whether secularist, Islamist, nationalist or Kurdish. Even the generals showed up to listen. They have been boycotting parliament ever since 20 members of the pro-Kurdish Democratic Society Party (DTP) were elected in 2007.

Most of his listeners will have been pleased to hear Mr Obama stress Turkey's Western orientation, saying that America supported Turkey's aspirations for European Union membership "not as members of the EU but as close friends of both Turkey and Europe." The Islamists liked his reference to Turkey's Muslim identity. But he also called for respect for minorities, declaring that the Greek Orthodox seminary on Halki, an island off Istanbul, must be reopened. In a bold gesture he included the DTP's co-chairman, Ahmet Turk, among the opposition leaders whom he met. Mr Turk has long sought an audience with Mr Erdogan, but never had one because he refuses to label the PKK as "terrorist".

Only one cloud hung over Mr Obama's trip: his campaign pledge to call the mass killings of the Ottoman Armenians in 1915 "genocide". In a press conference after his talks with Mr Gul, the American president said that he had not changed his view of history. But in a blow to the Armenian diaspora, which has long lobbied for a congressional bill to label the massacres as genocide, Mr Obama suggested that Turkey's recent efforts to reopen its border and re-establish diplomatic ties with Armenia should not be overshadowed by America's position on the issue. Turkey and Armenia are expected soon to sign an agreement, after months of Swiss-sponsored talks in Bern. Officials close to the negotiations say that a document could be initialled by both sides in "a matter of days" and that the border could be reopened "within months".

This was not all a cynical fudge. During his parliamentary speech, Mr Obama declared that "history… unresolved can be a heavy weight…I know there are strong views in this chamber about the terrible events of 1915. While there has been a good deal of commentary about my views, this is really about how the Turkish and Armenian people deal with the past. And the best way forward for the Turkish and Armenian people is a process that works through the past in a way that is honest, open and constructive."

Not all Turks agree. An Ankara court recently overturned an Istanbul prosecutor's decision not to investigate some 30,000 Turks who have signed an online declaration apologising to the Ottoman Armenians for the "great catastrophe" that befell them in 1915.

Tensions are also running high in the mostly Kurdish south-east. Mr Obama praised the recent launch of a state-run 24-hour Kurdish-language television channel. But only days before his arrival, two Kurdish youths were killed in clashes with police during a rally called to mark the birthday of the captive PKK

leader, Abdullah Ocalan. Over 50 demonstrators who turned out to protest against the deaths are still in police custody.

Many friends of Turkey hope that Mr Obama will stick by his pledge on the Armenian genocide. They say that would restore America's moral credibility and would allow it to draw attention to Turkey's patchy human-rights record. Until recently, the EU's remonstrations counted most. But Europe's habitual foot-dragging during Turkey's membership talks has meant that it "has neither any carrots nor any sticks left," confesses an EU envoy in Ankara. Enter Barack Hussein Obama to fill the void.



WORLD
EUROPE

France and America

Allies of a kind

Apr 8th 2009 | STRASBOURG
From The Economist print edition

A torn relationship is repaired, but trust still seems to be missing

NO EUROPEAN leader has worked harder to mend ties with America—nor had so much to do. Ever since his election in 2007, President Nicolas Sarkozy has tried to persuade America that France is a reliable friend, even an alternative interlocutor to Britain. Mr Sarkozy has courted and flattered the Americans at every opportunity, trying to turn the page on the time of the Iraq war when the word "French" became a byword in America for disloyalty. At the NATO summit Mr Sarkozy even took France back into the alliance's military command. Yet, as Barack Obama ended his first trip to Europe, he left the French feeling oddly frustrated.

Mr Obama made all the right noises. In Strasbourg before the NATO meeting, he stood beside a contented Mr Sarkozy in the courtyard of an 18th-century palace and called France America's "oldest ally, our first ally". When Mr Sarkozy said that France would not send any more soldiers to join NATO's operation in Afghanistan, he still praised the French president's "remarkable leadership" there. He wowed an audience of schoolchildren at a town-hall-style meeting. When the two first ladies met, Michelle Obama, in a magenta silk dress, even managed to rival Carla Bruni-Sarkozy for glamour.

There is relief in Paris at the pragmatism of the new administration. Senior officials talk approvingly of the "end of ideological foreign policy" and say their views are listened to, even solicited, on dealings with Iran or Syria. The Obama team includes a surprising number of French-speakers, including General Jim Jones, the national security adviser, who went to a *lycée* in France. The French are pleased that one of Mr Obama's first decisions was to close Guantánamo; Mr Sarkozy has agreed to take one detainee at Mr Obama's request.

Yet behind the warm words lurk awkward disagreements, and not just over troops for Afghanistan. Even before he left for Turkey, Mr Obama had stirred up fresh irritation in France by declaring his full backing for Turkish membership of the European Union. Mr Sarkozy disagrees, in line with French public opinion, and has promised voters he will resist Turkish entry—although he has not blocked membership talks altogether. He also sees it as none of America's business. "I am working hand in hand with President Obama," Mr Sarkozy sniffed on French television, "but when it comes to the European Union, it's up to member countries to decide."

Mr Obama has agreed to return to France to commemorate the 65th anniversary of D-Day in Normandy. But there is some disappointment that it took such effort to secure this trip. Britain's Gordon Brown not only hosted the Obamas during the G20 summit in London but has visited them in Washington. The French find this unfair. Mr Sarkozy undertook a prolonged charm campaign to position himself as America's new best friend, rewriting the Gaullist rules and closing a chapter of bitter Franco-America relations. He met Mr Obama in Washington in 2006 when neither was an official presidential candidate. As president, he gave a warm speech to Congress. He has returned France to NATO's military command against the views of many in his own party. He even took his first summer holiday as president in New England.

The cause of the frustration may be inflated expectations. Neither the Germans nor the Italians have been favoured by Mr Obama more than the French. It may have been unrealistic of Mr Sarkozy to imagine he could rival the special relationship between Britain and America. Nor does his theatrical style help. Mr Sarkozy's joint effort with the Germans to turn the G20 summit into a showdown between continental Europeans and "Anglo-Saxons" may have boosted his standing at home, but it will not have endeared him to Mr Obama. Mr Sarkozy brings formidable energy and creative ideas to the diplomatic dinner table. Yet, even under Mr Obama, it may take longer than he hoped to rebuild real trust between America and France.

Denmark's prime ministers

Rasmussens abound

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From The Economist print edition

Denmark's prime minister gets NATO's top job and a namesake succeeds him

THAT one of Anders Fogh Rasmussen's first acts after being chosen as NATO's secretary-general was to fall down the stairs in Istanbul and dislocate his shoulder is not that surprising. He had been on an exhausting 12-month slog to swap his job as Danish prime minister for the plum post in Brussels, culminating in a gruelling finale at the NATO summit, where Turkey raised objections. The deadlock was broken only when Barack Obama marched Mr Fogh Rasmussen and Turkey's president, Abdullah Gul, into a back room for a private chat.

Turkey's obstinacy was rooted in Danish stubbornness. In 2005, as prime minister, Mr Fogh Rasmussen refused to meet Turkish and other Muslim diplomats to discuss cartoons of the Prophet Muhammad in a Danish newspaper. Mr Fogh Rasmussen said free speech was non-negotiable. In Istanbul on April 6th he took a softer line, speaking of the balance between free speech and a deep respect for personal religious convictions. This conciliatory approach brought smiles to Recep Tayyip Erdogan, Turkey's prime minister, but riled politicians in Copenhagen, making more trouble for Mr Fogh Rasmussen's successor.

The new prime minister is yet another Rasmussen—the third in a row, none of them related. Lars Lokke Rasmussen, a 44-year-old who has previously had the health and finance portfolios, has domestic experience but almost no foreign exposure. A loyal sidekick thus far, he promises to stick with Mr Fogh Rasmussen's broad policy agenda.

AP



Anders Fogh passes the hat to Lars Lokke

The problems are stacking up. Denmark is in recession and unemployment is rising. Recognising that his first priority should be damage control, Mr Lokke Rasmussen has put another party stalwart, Claus Frederiksen, into the finance ministry. The climate-change summit in Copenhagen in December will be another huge task. The biggest international event ever held in the city will be a test of Mr Lokke Rasmussen's diplomacy. (Mr Fogh Rasmussen's advice: get an international network, fast.)

Succeeding a man who won three elections in a row will not be easy. The voters' response to Mr Lokke Rasmussen has been lukewarm. Support for the opposition Social Democrats has surged. Public opinion is divided over whether the newcomer can fill his master's large shoes or whether he may be an underestimated talent. Whichever it is, Mr Lokke Rasmussen may find that tackling the problems ahead proves just as punishing as Mr Fogh Rasmussen's marathon run to the NATO job.

The troubled Baltics

Still afloat in the Baltic, just

Apr 8th 2009 | TALLINN
From The Economist print edition

The three Baltic economies face a spiralling economic downturn

ONCE the fastest-growing economies in Europe, the three Baltic countries are now the opposite. Latvia, which in December received a €7.5 billion ($10 billion) bail-out led by the International Monetary Fund, is basing its budget on a 13% decline in GDP. Estonia and Lithuania expect a decline of a tenth. A conventional response might be devaluation and fiscal stimulus. But the Baltics' currency pegs to the euro are a matter of national pride. Moreover, most private borrowing is in euros, so devaluation would mean beggary for many. Instead, the response has been wage cuts meant to regain competitiveness.

Fiscal stimulus is tricky too. Estonia ran a budget surplus during the boom, so has some room for manoeuvre, but even it can risk only a deficit of 3% of GDP permitted by the rules for joining the euro. All three countries want to adopt the single currency as soon as possible, though not by bending the rules: the whole point is to gain credibility, not to enter the club "on a stretcher", as one official puts it. But as economies shrink, it gets harder to meet deficit targets. Latvia's new government has been haggling over a 5% ceiling agreed with the IMF, missing last month's €200m instalment of the bail-out as a result.

The Baltics have no shortage of external support. The European Bank for Reconstruction and Development this week agreed to bail out Parex, a Latvian bank. The IMF has more money to help. But the economic adjustments are still unimaginable in old Europe. Having soft-pedalled reform after joining the European Union, the Baltics now have to make up for lost time, in a climate where they are perilously exposed to the global downturn.

Belatedly, some progress is visible. Inflation and current-account deficits are falling. Latvia has begun unpicking a network of sinecures in nationalised industries. But overdue reforms such as simplifying local government in Estonia are still on hold. Yet compared with the polarised politics and debt-soaked economy of Hungary, the Baltics' outlook is not bad. None of the three is much exposed to the international financial markets. Their stocks, bonds and currencies are thinly traded. Most of their external debt is owed by local bank branches of Swedish parents. Bits of those loan books have soured, particularly in property and construction. But other parts are still sound. So long as the Scandinavian banks stand by their investments, the Baltics should be all right.

Baltic blues
GDP, % change on previous year
Source: Economist Intelligence Unit *Forecast

Public protests have been muted and peaceful except for two bust-ups in Lithuania and Latvia. Estonia's politics look the most solid, with a well-regarded coalition government. Latvia's government, in office for just a month, is more broadly based than its predecessor and has shed some incompetent figures. Lithuania faces a presidential election in which the front-runner is the EU budget commissioner, Dalia Grybauskaite. Her financial skills may soon be tested, since after the election Lithuania may well turn to the IMF for help.

Spain’s government

Shuffle, shuffle

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From The Economist print edition

Spain’s prime minister brings in a new finance minister

SECOND-TERM prime ministers often feel the pull of the world stage. In Spain, too—though José Luis Rodríguez Zapatero, re-elected a year ago, was slow to follow the trend. That was partly because he was one of George Bush’s least favourite European leaders. In a frenzied few days, however, Mr Zapatero has made up for it, with appearances in six countries from Chile to Turkey. He eventually carried off his prize, when Barack Obama declared that he was “glad to call him a friend”.

Unfortunately, Mr Zapatero’s frantic week abroad coincided with trouble at home. Immediately after he stepped off the plane in Madrid, he announced a cabinet reshuffle. Out went the heavyweight Pedro Solbes, the veteran finance minister who was praised during the election campaign as the man to trust on the economy. In his place appeared Elena Salgado, a seasoned if low-profile technocrat. Ms Salgado, slight but tenacious, has held tough ministerial posts at health and public administration. Few, however, expected her to be given the finance hot seat.

In truth, Ms Salgado will not be able to pack Mr Solbes’s punch. She may instead find herself battling the economic team at the prime minister’s Moncloa palace. Mr Zapatero’s insistence that he chose Ms Salgado for her fine administrative skills suggests that he may want to take more direct control of economic policy himself.

Mr Solbes seems a surprising sacrifice. His sturdy, gloomy and world-weary countenance, and his soft-spoken manner, were ideally suited to these straitened times. He exuded the experience and gravitas needed to reassure financial markets. His departure gives Spain only its third finance minister in 16 years: Mr Solbes and Rodrigo Rato, of the opposition People’s Party (PP), had alternated since 1993. He was, however, a tired man. Asked what he envied most about a colleague who resigned in February, Mr Solbes quipped that it was being an ex-minister. His fiscal conservatism also clashed with Mr Zapatero’s fondness for public spending as a solution to the crisis.

Mr Zapatero is only now starting to pay the price for recession. His Socialist Party lost the regional election in Galicia to the PP last month. A poll in *Público*, a newspaper, puts the party slightly behind the PP, which may win June’s European elections. Unusually, Mr Zapatero also failed to keep his government shuffle a secret. As a result he had to share front-page Obama photographs with headlines about ministers awaiting the sack. Party discipline broke down in his absence and leaks started. It is a sign of growing nerves.

Spain’s economic pain looks likely to last. The Bank of Spain thinks GDP will shrink by 3% this year and another 1% in 2010. A tentative recovery, it says, may not come until late in 2010, a year later than Mr Zapatero has predicted. Worst of all, unemployment will soar past 4m to a whopping 19.4%. The central bank’s gloomy forecasts came after Spain’s first bank rescue of the credit crunch. The small Caja Castilla La Mancha savings bank has been bailed out after it sank under the weight of loans to a once hyperactive and overblown property sector. Other rescues may follow.

Ms Salgado will accordingly have her hands full. Her mission is to speed up the response to the crisis. She also needs to reform an outdated economic model that is overly dependent on a low-quality (and increasingly out of a job) workforce—something Mr Solbes tried to do, but without getting enough political support. “Education, education, education,” Mr Zapatero said, aping Britain’s Tony Blair, as he announced his new priorities. In her old job Ms Salgado boxed with Spain’s quarrelsome regional governments. She will have to learn when to hit, and when to dodge, if she is to survive as many rounds as her predecessor did.

Charlemagne

A surfeit of leaders

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From The Economist print edition

The European Union still foxes outsiders with its plethora of presidents

Illustration by Peter Schrank



“WHY are there four glasses of water?” asked a reporter from a German daily. It was a good question. A score of journalists had been hustled into a back room at a European Union summit in Prague, for a briefing by Barack Obama. The mystery was soon solved, as a case of EU protocol. When the American president arrived, three Europeans were with him: the Czech prime minister, whose country holds the six-monthly presidency of the EU; the prime minister of Sweden, who will come next; and the president of the European Commission.

Mr Obama, nearing the end of his European tour, neither smiled nor spoke. His expression unreadable, he silently invited the commission’s boss, José Manuel Barroso, to stand at the lone microphone. As Mr Barroso, a voluble sort, talked about strong transatlantic relationships and the like, Mr Obama gazed stony-faced at his shoes. His Mount Rushmore impression did not falter even when Mr Barroso valiantly called the half-day EU-America summit “a very important event”, which it was not.

Next came Sweden’s Fredrik Reinfeldt, who welcomed “new signals” from America on tackling climate change. Then came forgettable remarks by Mirek Topolanek, the summit’s Czech host. Mr Topolanek’s coalition government fell on March 24th, leaving him a caretaker. His clout with Mr Obama was also reduced after he publicly called America’s economic-recovery plans the “way to hell”. He duly found himself sidelined: his bilateral time with Mr Obama was reduced to a minimum, and he had to share it with the Czech president, Vaclav Klaus, a schemer widely credited with toppling the Topolanek government.

At last Mr Obama spoke briefly. Deftly navigating the morass of euro-presidencies at his side, he praised the “leadership of the three gentlemen here” and talked a bit about North Korea. He called EU-American ties “one of the key foundations for progress in the world”, and then left without taking questions.

To euro-types in Brussels, such embarrassing vignettes point to one blindingly obvious conclusion: as soon as possible, all 27 EU members must ratify the Lisbon treaty, which creates the new job of a full-time EU president, so that small, incompetent countries like the Czech Republic no longer take turns to speak for Europe. Early on, the Czech presidency had its fair share of successes. The sniping began even before the Czechs took their turn in the EU chair, on January 1st, and was loudest in Paris. Such critics often seemed inspired by a doctrine set out by President Nicolas Sarkozy, when he surrendered the EU presidency at the end of 2008, that “it is for big countries to take the initiative” in Europe. In other words:

small countries pipe down.

Sadly, the time for defending the Czech presidency is gone. The parochial myopia of Czech politicians has seen to that. As Mr Obama left Prague on April 5th, a deal was reached to form a technocratic government led by the country's chief statistician, Jan Fischer. If a majority in parliament agrees, Mr Fischer will be in power until a fresh election in the early autumn. Backers of such a non-partisan government say it avoids the risk that Mr Klaus would appoint a different one that shares his fierce Euroscepticism so as to wreck the Czechs' EU presidency, which still has some weeks left to run. They are deluding themselves. If a technocratic government takes office, it will leave the presidency politically dead, even if Czechs physically keep chairing meetings. In the depths of a world crisis, the other 26 governments will not allow appointed bureaucrats to set the agenda.

Does the Lisbon treaty's full-time president hold the answer? It would sweep away the "Welcome to Lilliput" aspects of the EU that exhaust visitors like Mr Obama, notably the need to share a platform with three different euro-representatives. But consider the three big requests that Mr Obama made during his European tour: for more help in Afghanistan; for more fiscal stimulus; and for Europe to become more serious about energy security (ie, buy more non-Russian gas). Almost nothing was offered on the first and third, and the G20 conclusions papered over lingering transatlantic differences on stimulus plans and financial regulation. And Mr Obama also earned a public rebuke from Mr Sarkozy for strongly backing Turkish membership of the EU, which the French president opposes.

A Blair, which project?

Imagine that Europe already had a full-time president (Tony Blair, say), rather than poor, rotating Mr Topolanek. How much would change? A President Blair might be able to push for a bit more EU unity over gas supplies. But he could hardly force governments to embrace Turkey, send troops to Afghanistan or change their views of financial capitalism.

During the NATO summit in Strasbourg, Mr Obama came up with a sharp observation. In its "wheeling and dealing", and constant pursuit of different interests, political interaction in Europe is "not that different from the United States Senate", he remarked. He was too polite to complete the thought: that European leaders, like senators, combine verbosity and limitless self-regard with a readiness to be bought off with money for voters back home, or favours for special interests.

As the Czech presidency enters its death throes, expect more people to argue that only a full-time president can save Europe. Be sceptical. Internal EU disputes will not melt away just because a powerful figure chairs leaders' meetings. Dynamic Mr Sarkozy may be remembered fondly now, but many governments were relieved when his presidency ended. With Mr Sarkozy in charge, the prospect of a two-speed Europe yawned too widely for some people's liking. It is the same externally. European and American leaders disagree because, on some issues, they disagree, not because of the way they organise their summits.

Economist.com/blogs/charlemagne

Local-government finances

Bust in the boonies

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As central-government finances buckle, local coffers take the strain too

Illustration by David Simonds



BRITAIN'S cupboard is looking pretty bare. After a binge of bail-outs, lifelines and fiscal stimuli, public borrowing is soaring. And if things look bad in Westminster, pain will be felt in town halls around the country. Councils get an average of three-quarters of their money from central-government grants, rising to 90% in poor areas. So "as national finances go, so go local finances," reckons Adam Marshall of the Centre for Cities, a think-tank. For the past ten years that has been a good deal: grants went up by 39% in real terms in the decade from 1997, though more work came with it. Now, as belts tighten in London, town-hall tums must be sucked in too.

Constraints are closing in from four directions. Government grants are agreed in three-year tranches, and the current tranche has just entered its second year. But these settlements, designed to help councils plan for the long term, are gentlemen's agreements, not legally binding, and rumours now buzz that the cash-strapped Treasury is contemplating cutting next year's grant. Even if it holds off, no one thinks the next three-year deal will be generous: money needs to be saved somewhere, and boring-sounding council grants may be easier prey than health, education and other popular public services.

Secondly, councils, like most folk, aren't making much on their investments anymore. The Bank of England's base rate of interest tumbled to 0.5% in March from 5.5% at the beginning of 2008. "We became used to the benefit of that interest," says Joanna Killian, chief executive of Essex County Council, which has some £300m ($440m) invested in the markets on a typical day. Some councils may have lost not only interest but deposits too, after parking savings in the Icelandic banks that sank in October last year. More than £793m was deposited by 105 councils, of which the worst exposed was Kent, with £48.9m of it. Councils acted without due regard to the risks involved, and a small number were negligent, according to a report last month by the Audit Commission, a spending watchdog (which itself made deposits of £10m in two Icelandic banks).

Other forms of income have dried up too. Revenues from council tax, a property levy and the only tax that councils directly set themselves, are down since more people are unemployed and thus qualify for means-tested exemptions. This tax cannot be raised much for remaining payers because the central government has said it will cap increases at 5%. A slowdown in homebuilding means that predictions of higher future

tax receipts will not be met. And the stalled property market has also cut income from the charges that councils make when they grant planning permission. EC Harris, a building consultancy, calculates that councils made around £9 billion from planning permissions in the year to March 2008. In the subsequent year they will have made only £2 billion-3 billion, Harris reckons.

The take-up of paid-for consumer services has fallen too. Fewer people are going to public pools, or doing up their kitchens (councils can earn an easy fee by picking up an old fridge). Ms Killian says parking receipts in Brentwood, a town in her empire, are down by as much as a quarter as people stay at home or take the bus.

Finally, councils expect to spend more on other, free services. Hard-up parents may transfer their children from private to state schools, and more of those who were there already are applying for free school meals, according to the Local Government Association (LGA), which represents town halls. Demand for social housing is likely to rise. And elderly people whose savings income has dropped are turning to the state. “Some people who wouldn’t ever have thought about taking a local-authority service need us now,” Ms Killian says.

The consequence—and a silver lining

Already, councils are trimming their costs. The LGA reckons 10,000 council jobs have been shed since September. A survey by the *Times* in February predicted 40,000 could go in 2009. Education budgets (the biggest expense) are ring-fenced, leaving councils to cut transport, social services, housing, rubbish collection and fun things such as sports facilities and libraries.

So prepare for a dirtier, glummer Britain. But the belt-tightening has some upsides. It may lead to better procurement (see article). Small authorities could save money by sharing call centres or other back-office functions, suggests James Hulme of the New Local Government Network, a think-tank. And council chiefs report two pluses: lower inflation has made it easier to negotiate contracts, and the quality of job applicants has soared as bright people flee the private sector.

The crisis may also force more realistic thinking about pensions. Unlike many in central government, whose pensions will be paid by tomorrow’s taxpayers, council workers are members of actual pension funds, which are now nowhere near big enough to meet their obligations. The Icelandic experience may foster more sensible stewardship of these funds; but generous final-salary pensions, almost extinct in the private sector, may also be ditched.

The crisis may have a lesson for Whitehall too: that councils need more power if they are to make bigger savings. Their central funding, much of which comes earmarked for particular projects, leaves them “fighting the recession with one hand behind their backs”, Mr Marshall argues. A big city such as Birmingham, where £7.5 billion of public money is spent each year by various central-government agencies, could recover more quickly if the council were allowed to divert resources into, say, youth unemployment, he suggests.

Councils have proved good at spending their money in the past. Though newspapers focus on their handsomely paid chief executives (16 of whom earn more than the prime minister), the Audit Commission has praised them for repeated efficiency savings. In fact, the Communities Department, which sets these targets, could perhaps take a leaf from their book: an internal review of Whitehall procurement policies, leaked this week, put the department second from the bottom.

Council budgets

Less is more

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Outsourcing is helping to save county halls' balance sheets

ONE way for councils to cut costs is to do less by getting others to do more: outsourcing the management of facilities and provision of services to private-sector and not-for-profit outfits, for example. Done right, both the facilities and the local budget improve. Done wrong, and services vanish. Either way, outsourcing can be a tough sell.

In the Wirral, west of Liverpool, the council announced plans to close 11 of its 24 libraries, privatise other facilities and hand over community centres to unnamed groups, in the hope of saving £3m ($4.4m) or so a year. Residents protested: a rowdy meeting at Wallasey Town Hall on February 9th was suspended repeatedly and the council leader, Steve Foulkes, dubbed a "cultural terrorist". On April 3rd, hours before the first libraries were to close, Andy Burnham, the culture secretary in Whitehall, was moved to grant a stay of execution. Councils are required by law to provide all residents with a comprehensive library service. An independent inquiry is to determine whether Wirral's plans would cut across that obligation.

Such fights will become more common as recession bites, but the trend toward local-government outsourcing is anything but new. Until the mid-1980s leisure and cultural facilities were almost wholly managed in-house. When Margaret Thatcher's axe began to fall on local governments these services were chosen for budgetary savings. Compulsory competitive tendering for them was introduced in 1988. Since then, councils have contracted private-sector firms and not-for-profit trusts to manage everything from sports centres to museums. Around half of such services are now run in this way.

In the main, the council pays a management fee to the contractor or trust, which in return pays a peppercorn rent for the property. The attraction of private firms is that they can manage facilities and services in a commercially independent way, and bring in investment. The popularity of the trust model owes essentially to a tax dodge. Trusts are exempt from the business rates and VAT that councils pay (as long as councils reinvest the savings in services).

Just how effective the strategy is remains unclear. A review by the independent Audit Commission in 2006 of local provision of public sports and recreation found that councils were "unable to demonstrate value for money" from outsourcing, whether the provider was a private firm or a trust.

This may say more about the competence of councils than it does about outsourcing. Last year the Department for Business, Enterprise and Regulatory Reform looked at all the private and not-for-profit enterprises providing services to the public on behalf of all levels of government. Their turnover in 2007-08 was £79 billion, 126% higher than in 1995-96. From refuse collection to health care, competitive tendering had produced cost savings of up to 30%, the review concluded.

"Bringing in different providers has already helped many local authorities deliver better value for money," argues John Cridland, deputy director-general of the CBI, a business lobby. "We'd hope to see more move from being providers of services to becoming commissioners."

But to do that effectively, says Stephen Greenhalgh, the leader of Hammersmith & Fulham Council, "involves careful contract planning and close monitoring of providers so they are continuously encouraged to deliver high-quality services at the lowest possible cost". Mr Greenhalgh's borough has cut tax rates by 3% for the three years from 2007-08 and pledged to outsource half of its total budget. At the same time the Audit Commission gave the council its top four-star rating for 2008 and residents' satisfaction levels are the highest ever.

Whether Wirral's residents too will learn to stop worrying and love outsourcing is not yet clear. But it would be an unexpected silver lining if recession were to force local governments to behave in ways that make them more efficient. Lord Ridley, a chain-smoking Thatcherite minister, described his perfect council as one that meets once a year to hand out contracts. The day when local governments function as

commissioning hubs rather than service providers has yet to arrive. But it may not be far off.

Council budgets

Less is more

Apr 8th 2009
From The Economist print edition

Outsourcing is helping to save county halls' balance sheets

ONE way for councils to cut costs is to do less by getting others to do more: outsourcing the management of facilities and provision of services to private-sector and not-for-profit outfits, for example. Done right, both the facilities and the local budget improve. Done wrong, and services vanish. Either way, outsourcing can be a tough sell.

In the Wirral, west of Liverpool, the council announced plans to close 11 of its 24 libraries, privatise other facilities and hand over community centres to unnamed groups, in the hope of saving £3m ($4.4m) or so a year. Residents protested: a rowdy meeting at Wallasey Town Hall on February 9th was suspended repeatedly and the council leader, Steve Foulkes, dubbed a "cultural terrorist". On April 3rd, hours before the first libraries were to close, Andy Burnham, the culture secretary in Whitehall, was moved to grant a stay of execution. Councils are required by law to provide all residents with a comprehensive library service. An independent inquiry is to determine whether Wirral's plans would cut across that obligation.

Such fights will become more common as recession bites, but the trend toward local-government outsourcing is anything but new. Until the mid-1980s leisure and cultural facilities were almost wholly managed in-house. When Margaret Thatcher's axe began to fall on local governments these services were chosen for budgetary savings. Compulsory competitive tendering for them was introduced in 1988. Since then, councils have contracted private-sector firms and not-for-profit trusts to manage everything from sports centres to museums. Around half of such services are now run in this way.

In the main, the council pays a management fee to the contractor or trust, which in return pays a peppercorn rent for the property. The attraction of private firms is that they can manage facilities and services in a commercially independent way, and bring in investment. The popularity of the trust model owes essentially to a tax dodge. Trusts are exempt from the business rates and VAT that councils pay (as long as councils reinvest the savings in services).

Just how effective the strategy is remains unclear. A review by the independent Audit Commission in 2006 of local provision of public sports and recreation found that councils were "unable to demonstrate value for money" from outsourcing, whether the provider was a private firm or a trust.

This may say more about the competence of councils than it does about outsourcing. Last year the Department for Business, Enterprise and Regulatory Reform looked at all the private and not-for-profit enterprises providing services to the public on behalf of all levels of government. Their turnover in 2007-08 was £79 billion, 126% higher than in 1995-96. From refuse collection to health care, competitive tendering had produced cost savings of up to 30%, the review concluded.

"Bringing in different providers has already helped many local authorities deliver better value for money," argues John Cridland, deputy director-general of the CBI, a business lobby. "We'd hope to see more move from being providers of services to becoming commissioners."

But to do that effectively, says Stephen Greenhalgh, the leader of Hammersmith & Fulham Council, "involves careful contract planning and close monitoring of providers so they are continuously encouraged to deliver high-quality services at the lowest possible cost". Mr Greenhalgh's borough has cut tax rates by 3% for the three years from 2007-08 and pledged to outsource half of its total budget. At the same time the Audit Commission gave the council its top four-star rating for 2008 and residents' satisfaction levels are the highest ever.

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commissioning hubs rather than service providers has yet to arrive. But it may not be far off.

Allotments

Take this job and shovel it

Apr 8th 2009
From The Economist print edition

Demand for garden plots is growing faster than supply

AS SPRING makes its usual staggered start, the Fielding Street allotments, off south-east London's Walworth Road on a second world war bomb site, are buzzing. Plotholders—a mixed bunch of beekeepers, university lecturers, Zambian migrants and "Nyudies" (new yuppie diggers) alongside the London-Irish flat-cappers of old—are making up for winter neglect. Exotic tubers and decorative blooms jostle carrots, spuds and beans in plots that range from pocket handkerchief to half a football pitch in size. For the privilege, the allotment society pays a nominal rental to Southwark Council, which owns the land.

The Fielding Streeters are part of a venerable British tradition. Allotments dot British towns and cities, typically on land along railway lines and on old manufacturing sites, a legacy of the industrial revolution that drew rural folk to the cities. In 1887 the first of several Allotment Acts obliged town and parish councils to provide land for people to grow food, and allotments helped Britons through wartime food shortages later. The "Dig for Victory" campaign of 1939 fostered a self-sufficiency that lasted well into the era of post-war austerity.

The Fielding Streeters are lucky, as demand for allotments today far exceeds supply. The number of plots fell from around 1.5m in 1940s Britain to fewer than 300,000 in England alone in 1997, as councils built on land or sold it off: allotments in East London, for example, were sacrificed recently to the 2012 Olympics. Even before recession hit, a new enthusiasm for home-grown produce had swelled the waiting lists for plots. Some 100,000 people are in the queue now, and may stay there for up to seven years.

Groups such as the Federation of City Farms & Community Gardens are pressing councils to provide more land. They were joined this month by the BBC, which is launching a campaign for more allotments through "Gardener's World", its popular television programme. Others too want unused land turned over to allotments. In February the National Trust, keeper of Britain's stately homes, unveiled a scheme to promote plots on its properties. Network Rail has welcomed allotments on land behind a railway station in Bristol and plans to do more; British Waterways, which looks after the canal network, has a pilot programme on the banks of an East London canal. Celebrity chefs have done their bit, too: Jamie Oliver is a big fan of allotments and Hugh Fearnley-Whittingstall is developing a "Landshare" website to match gardeners with spaces.

Deborah Burn of the Allotments Regeneration Initiative, a campaigning group, speaks warmly of such schemes. Yet councils are actually required to provide land for allotments, she points out. Although some towns, including Edinburgh and Leeds, and more rural councils have done so, "we are still aware of many groups that have had difficulty in getting land". Not, with luck, for long.

The Catholic church

Time for a bruiser

Apr 8th 2009
From The Economist print edition

The church's new English head is a tougher customer than his predecessor

NOT everyone speaks warmly of Archbishop Vincent Nichols, the new head of the Catholic church in England and Wales. That, in fact, may bode well for his ability to fight its corner in the hard discussions about religion and society that loom.

For the relative liberals who form the majority among England's Catholic bishops, their new leader is a bit too conservative (that is, too close to Pope Benedict XVI); some would call him a deserter from liberal causes that he once embraced, such as racial and social equality. And for the clever advocates of old-time religion (many of them young) who abound in cyberspace, the new archbishop of Westminster isn't far enough to the right.

But neither criticism will do the 63-year-old prelate much harm in the places where he is likely to make a difference. He may be at odds with English Catholicism's mildly liberal establishment, but his life mirrors the trends among his flock. There are around 4m baptised Catholics, though only a fifth are keen churchgoers.

A generation ago, the heart of English Catholicism was in the north: cities settled by the Irish, plus small pockets that the Reformation never reached. Now the locus has shifted to the cosmopolitan cities of the south, starting with London. This translates into some gloriously diverse parishes, where well-bred eccentrics meet Filipino domestics, east European builders and African asylum-seekers. Newcomers naturally want a church that can speak to the homesick; but in theological and liturgical matters, many are conservative.

Not an easy market to serve. But having grown up in Liverpool (where a call to the priesthood tugged him away from a football match) and spent much time in London—and Rome and Chicago—Archbishop "Vin" is well-placed to cope with the church's new sociology. He is also a politician who can build a coalition. For example, he was instrumental in forcing the government to reverse its demand that state-financed religious schools be substantially open to all comers.

Some English Catholics will welcome a leader with a harder-hitting style than the outgoing archbishop, Cormac Murphy-O'Connor, who preferred dealing with the authorities (and Tony Blair in particular) through quiet consultation. Why change tone now? Despite some recent, well-meaning official noises about altering the law that bans Britain's monarch from being or marrying a Catholic, arguments over religion are in fact getting tougher.

AP



An archbishop with the gloves off

One reason is the rise of clever atheism: best-selling books from both sides of the Atlantic argue that faith in God is not only misguided but socially harmful. Then there is Islam and the ideologies that go with it. Critics of "Islamism" (including some Muslims) say believers should act as individual citizens, not as a group. The idea that mosques have a duty to articulate the feelings of their members (on anything from gambling to Gaza) sparks huge fights.

The new archbishop of Westminister will have to tread carefully. He thinks that religions must publicly advocate values that defy the secular consensus. In a paper on social policy that he will produce this year (taking due account of an encyclical the Vatican is about to issue), expect a keen defence of the family and "civil society" at a time of crisis when the state and private enterprise alike are proving inadequate.

But he is no pushover on Islam, even though he upset some Christians by letting Muslims celebrate Muhammad's birthday in a chapel. He has suggested a congruence between Christianity and European culture because both respect the individual; this implies that it is open to question, at best, whether Islam can bed down in Europe with equal success.

The public finances

Gordon's debt mountain

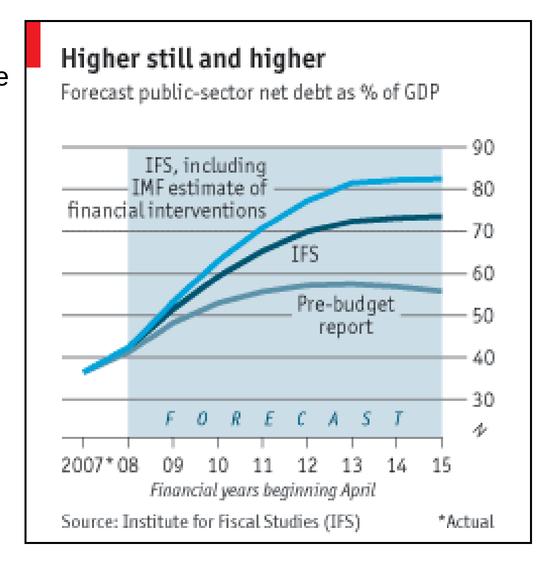
Apr 8th 2009
From The Economist print edition

The travails of financing Britain's ever-bigger borrowing

BIG numbers are losing their ability to impress in these recession-numbed times. A surprise £39 billion-a-year hole in the public finances by 2015-16, predicted on April 6th by the Institute for Fiscal Studies (IFS), a think-tank, was nevertheless reasonably breathtaking. The IFS takes a dimmer view than the government did in its pre-budget report in November of future economic performance and revenues. To close the gap would require adding £1,250 to each household's annual tax bill, on top of the changes already mooted, or freezing real government spending for five years. Not a great headline for Gordon Brown, the prime minister, as he braces himself for a general election to be held in June 2010 at the latest.

The alternative, of course, is to borrow, and the government is getting good at that. Britain's budget deficit is expected to exceed 10% of GDP in the financial year beginning this month. Public-sector debt is headed up as well. In November the government predicted that it would peak at 57.4% of GDP in 2013-14, but that is bound to be revised upward on April 22nd, when a new budget is to be presented. The IFS thinks that debt will still be increasing from 73.5% of GDP in 2015-16, or from 82.4% if the IMF's estimate of the cost of bailing out the banks is added (see chart).

Just how efficient is the borrowing machine of which so much is being demanded? The Treasury's Debt Management Office (DMO) has been pumping gilts (government bonds) into the market at the rate of over £12 billion a month since October. On March 25th one of its auctions faltered when too few competitive bids were made. That had not happened since 2002.



Other creditworthy countries (Germany, for example) have had more than one failed auction; this specific gilts issue had some unhelpful characteristics; and Mervyn King, the governor of the Bank of England, had cast public doubt the day before on Britain's capacity for more fiscal stimulus. But it was an unpromising stumble by a government that must borrow around £150 billion this financial year.

The DMO has had to finance not only the government's fiscal stimulus but also the bail-out of the banking sector. This has cost about £55 billion in capital injections and £26 billion in compensation for depositors. The DMO may be, though this is not clear, the ultimate financier of the Asset-Purchase Facility (APF), a £75 billion fund for quantitative easing that permits the central bank to boost money supply by buying gilts, corporate bonds and commercial paper. So far it has bought £19 billion of gilts, £314m in corporate bonds and £2.0 billion of the paper. That has raised the price of gilts slightly, making it cheaper for the government to borrow, but the effect on corporate bonds has been minimal: the market remains quite illiquid. Little net new commercial paper is being issued.

Illustration by David Simonds

The APF was originally designed to push credit into the corporate sector because banks were not lending enough to firms. But by March the Bank of England's Monetary Policy Committee had decided to buy gilts as well, and in greater proportion. So far at least, quantitative easing seems not to be providing much finance to credit-starved companies. British banks increased their lending to small firms by only £137m in February, less than half the 2008 monthly average. In a survey of big-company finance directors published on April 7th by Deloitte, an accounting firm, more than 80% of respondents said the central bank's measures had had little effect on the cost or availability of new credit.

Danny Gabay, at Fathom Financial Consulting, believes the way to kickstart the economy is to intervene in the housing market, because falling prices are still damaging banks' balance-sheets and restraining new lending. The government should spend its money—£50 billion, say—buying houses and forestalling repossessions, he says. The money would be at risk, but only from a prolonged slump in house prices, the argument goes, and the government might even make a profit.



A bigger worry is whether investors in gilts may develop simple indigestion: sterling is the smallest of the world's main reserve currencies and the government has much more to borrow. Besides the failed auction, the central bank found that gilts were being dumped into the APF at below-market prices on April 6th. And it now costs more to insure against a British sovereign default than to buy protection against any G7 borrower but Italy.

There is one light at the end of the tunnel, though not a particularly alluring one. When banks are forced by their regulators next year to increase their reserves against liquidity risks, they will need to build up stocks of cash or government bonds—maybe as much as £400 billion-worth, according to one estimate. Good for prices, but perhaps a vicious circle, as some of Britain's biggest are already state-owned.

Teachers' foibles

Not so loony

Apr 8th 2009
From The Economist print edition

Their unions still posture, but teachers are less left-leaning than you think

DAFFODILS bloom and chocolate eggs melt as the long Easter weekend draws near. Alongside such pleasures is another, equally seasonal: the annual outpouring from the teaching unions' conferences, whose massed pedagogues can always be relied on to provide a few news stories to delight the headline-writers.

Guaranteed are jeremiads about parents and pupils, both inferior to those of yesteryear in various, not always consistent, ways. (In 2008 parents were criticised for being oversolicitous and their offspring for being little princes and princesses; this year the fashion is to bash them for being, respectively, neglectful and unsocialised.) Fairly standard attempts to blame the raw materials rather than inadequate workmen, but these moans are given a ready hearing because they confirm the fears of many readers (and not a few editors) that the nation's moral fibre is in shreds.

Also lapped up are the crazy conference motions, such as the proposal in 2007 for a curriculum based on modish "skills" rather than fusty "knowledge", with suggested lessons in "how to walk". Union activists in most walks of life are well to the left of those they represent, and teaching-union stalwarts are no exception. But such stories resonate because they fit the widespread stereotype of teachers as sandal-wearing, *Guardian*-reading lefties. It is one that has little evidence to back it up. The *Guardian* is indeed the profession's favourite newspaper, but not by miles. And teachers' tendency to vote Labour is of recent origin, and may not last.

In the run-up to the 1979 election that brought Margaret Thatcher to victory, most teachers told pollsters they intended to vote Conservative. When in 1987 they defected, disillusioned by low spending on schools, they turned first to the Liberal-SDP Alliance, the third party, before coming round to the charms of Tony Blair. In 1997 59% intended to vote Labour, nearly four times more than fancied the Tories. But fewer have voted Labour in each subsequent election. In 2008 the *Times Education Supplement*, a trade newspaper, found overwhelming disapproval among teachers of Labour's school policies and a shift in voting intentions (albeit towards the Liberal Democrats rather than the Tories).

Teaching is in some ways a natural job for the conservatively inclined. Like the police, teachers see too much of human nature to remain starry-eyed. And even the dogged idealists privately admit that traditional right-wing policies such as corporal punishment (teachers disapproved of its abolition in 1987) and academic selection (they resisted comprehensives in the 1960s and 1970s) would make their jobs easier.

But teachers' politics are also shaped by those who train them and by the nature of the work. Both are changing. While teachers were voting Tory in 1979, education academics were enamoured of child-centred education and discovery learning, and were turning out new teachers in that mould. The academics are still pretty left-leaning, but nearly a quarter of new teachers now train in schools rather than universities, up from a handful ten years ago. All are coming to grips with a very different profession: one shaped by a national curriculum, and tests and targets.

The recession is drawing in new recruits, too, which will help to change attitudes. Nearly half are over 25 years old. Teaching is once more attracting mathematics and science graduates who until recently would have scorned anything so unlucrative. And newly redundant professionals will soon be able to retrain as teachers in just six months—to the predictable fury of the unions.

Expenses-gate

The never-ending story

Apr 8th 2009
From The Economist print edition

Financial sleaze is frustrating the government's political recovery

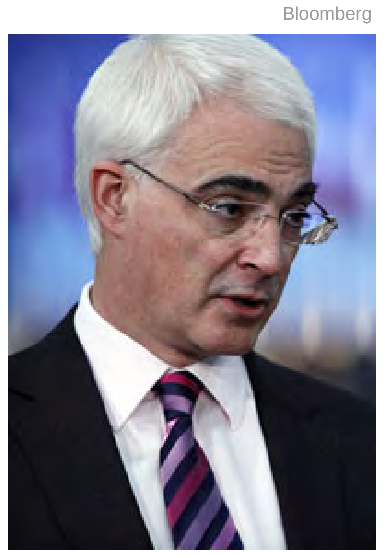
A DEAL was struck, the French president stayed in the room and Barack Obama threw stardust on his beleaguered host. The G20 summit on April 2nd in London went well for Gordon Brown and, though it was unrealistic to hope the event would single-handedly revive his struggling premiership, there are nevertheless tentative signs of a bounce in his popularity.

A YouGov poll published on April 5th showed the Labour Party narrowing the Conservatives' lead to seven percentage points. More than half of the respondents thought the summit a success (a finding echoed in an ICM poll released the same day) and Mr Brown and his chancellor of the exchequer, Alistair Darling, were preferred to the Tory team of David Cameron and George Osborne as managers of the economy. There were even signs that voters' despair over the state of the economy and their own finances had bottomed out.

The beginnings of a comeback, then, for Mr Brown, though a subsequent Populus poll gave him less reason to smile. But Mr Brown is swimming against a powerful tide of sleaze stories concerning his cabinet colleagues. A week after it was revealed that Jacqui Smith, the home secretary, had claimed a couple of adult films ordered by her husband on parliamentary expenses, Mr Darling and the transport secretary, Geoff Hoon, became ensnared in controversies of their own. It emerged on April 5th that they had made use of the so-called second-home allowance to maintain properties in their constituencies while living in taxpayer-funded ministerial residences and renting out their privately owned London homes.

Mr Darling paid local taxes on his ministerial property, as well as income taxes on the imputed benefit of living there rent-free, and claimed less than he was allowed on his second home in Edinburgh. Mr Hoon, whose enjoyment of three properties occurred during his stint as defence secretary, says that living in secure state premises was a cheaper option for the taxpayer than having round-the-clock security at his private home. Few quibble with the notion that certain ministers should be entitled to safe and convenient official residences; it is making money by renting out their own properties while asking the taxpayer to support yet another residence that raises hackles. And both men's denial that rules had been broken merely draws attention to the difference between obeying the letter of the law and behaving ethically.

Bloomberg



The Darling chapter

Labour MPs are not the only ones to make the most of their expenses and allowances, as the Tory leader, David Cameron, acknowledges. And the recent spate of sleaze stories involving ministers (parliamentary authorities are investigating the second-home claims of Tony McNulty, a welfare minister, and of Ms Smith herself) is not the only reason why Mr Brown is making only modest gains in the polls. A bigger problem is his failure to show the same endeavour and creativity at home as he displays on the international economic circuit; noteworthy policies on the domestic front are few and far between.

But the cascade of sleaze helps to diminish what momentum Mr Brown does have. This makes the wait for a review of Westminster's expenses regime by the independent Committee on Standards in Public Life, which will propose reforms, all the more frustrating. Despite a plea for haste from Mr Brown, it is not expected until towards the end of the year. Harriet Harman, the leader of the House of Commons, promises "big changes". An idea that has the backing of Mr Cameron is to ban ministers with grace-and-favour residences from claiming any allowance for a second home. In the meantime the damage to the government—and, as the Tories are grimly aware, to the whole political class—goes on.

Bagehot

Through a pint glass, darkly

Apr 8th 2009
From The Economist print edition

The feel-good cinematic version of Britain somehow no longer feels right

Illustration by Steve O'Brien



IN THE 1960s women wore miniskirts and men sported dizzying shirts and Lennonesque circular glasses. People took drugs, had jaunty sex with strangers and listened to rock ‘n’ roll; the few who didn’t were mostly government killjoys with Hitlerite moustaches. Everyone gadded about in Volkswagen campervans. There was a lot of parquet and purple.

In the 1970s people drank and smoked incessantly, even during football training. The wallpaper was awful. The cars were boxy and hair was rampant. More or less everything was brown.

Those are the familiar impressions relayed by two new British films. “The Boat That Rocked” is set in 1966, aboard a pirate radio station that flouted the BBC’s broadcasting monopoly from a boat in the North Sea. “The Damned United” dramatises the short, unhappy tenure of Brian Clough, a volatile football manager, at Leeds United, then England’s top club, in 1974. Both are tales of rebellious underdogs and male friendship. But they are otherwise very different. Taken together, the films, and the critical response to them, encapsulate the ways in which Britain imagines its past, and hint at the country’s current mood.

Excluding perennial costume dramas, a rash of shoddy cockney gangster flicks and anti-colonial American blockbusters (which, especially if Mel Gibson is involved, characterise the British as snobbish, cruel and chinless), in the past decade or so Britain has appeared on film in two main guises. One is as a soft-focus Arcadia of affluence and apolitical contentment, where it is almost always either sunny or snowing, falling in and out of love is the main pastime and everyone has great hair. This Britain is designed to gratify a British audience and beguile Americans; it is self-delusion masquerading as self-deprecation.

Its main exponent is Richard Curtis, the “romcom” maestro behind “Four Weddings and a Funeral” and other saccharine distractions (though Woody Allen has tried to muscle in). Mr Curtis directed “The Boat That Rocked” and, in a way, the 1960s are a natural decade for him to fix on. Apart from the miniskirts, Britain in the 1960s produced the Beatles, James Bond, the Profumo scandal and a decent riot outside the American embassy. But it was not so widely convulsed as was America or much of Europe. In popular memory, Britain’s ’60s are more titillating than traumatic; more Mary Quant than Gloria Steinem.

The 1970s, in which “The Damned United” is set, were less glamorous but perhaps more scarring. Besides the upholstery, they are remembered for class war and economic meltdown; for the three-day week and

the IMF bail-out; for picket lines, racial tension and violence in Northern Ireland and at football grounds. Other than sartorially, the ’70s weren’t funny.

They are the perfect setting for the other main vision of Britain that the cinema tends to offer. If Mr Curtis’s films are a form of self-delusion, this genre is a kind of self-flagellation. It is a realism focused on addicts, criminals and other desperadoes, set on housing estates and patches of waste ground where it is usually raining. Its main practitioners are Ken Loach and, less polemically, Mike Leigh and Shane Meadows. “Red Riding”, a trilogy of coruscating films in this mould, based on novels by David Peace and set partly in the 1970s, recently aired on Channel 4.

Mr Peace also wrote the novel of “The Damned United”, which like “Red Riding” sometimes imbues its drab surroundings with a certain melancholic grandeur. The adaptation also works in a redemptive romanticism, which sets it in the sub-tradition of British films that depict working-class grime but contrive happy endings. But it is nevertheless a story of unmanaged emotions, primitive masculinity and failure.

The biggest difference between “The Damned United” and “The Boat That Rocked” may be that “The Damned” is quietly affecting whereas “The Boat” is lamentable. Never can so many fine actors have generated so little pleasure (Bill Nighy, Kenneth Branagh, Philip Seymour Hoffman and several other luminaries are all sunk in Mr Curtis’s rustbucket). It is unfunny and misogynistic. By contrast, in its portrayal of introverted male rivalries and relationships, “The Damned United” describes male chauvinism without actively promoting it. “The Boat” has been duly excoriated by critics and “The Damned” mostly admired. These responses, however, may reveal something about Britain’s evolving tastes as well as about the films’ intrinsic quality.

This sceptred isle

A country’s artistic preferences are not fixed; neither are its attitudes to its past, which fluctuate with the perspectives of the present. It may be that, in 2009, Britain’s appetite for fluffy national pastiche has waned. And perhaps the 1960s hedonism and puerile individualism that “The Boat” celebrates seem, in the post-credit-crunch world, more flippant than heroic.

The 1970s, on the other hand, with their volatility and humiliation, have come to seem more relevant, almost a kindred decade (though the fact that much of what is now the cultural establishment grew up then may also be a factor in their salience). The ultimate message of “The Damned”—that overreaching ambition must be tempered and sublimated in teamwork to succeed—may seem more apposite than Mr Curtis’s.

British television audiences love bleak soap operas that deal in downtrodden banality. But cinema-goers have often been less keen on the pustulating reality of life in contemporary Britain than on reassuring fantasies: they have mostly been happier with Mr Curtis than, say, Mr Loach. British cinema nevertheless holds a mirror up to the country, if sometimes a distorted one. It has reflected the state of the nation even in its glosses and evasions, and through its selections and interpretations of Britain’s past. At the moment, the picture looks anxious and deflated.

Economist.com/blogs/bagehot


WORLD
INTERNATIONAL

Water

Sin aqua non

Apr 8th 2009 | ISTANBUL
From The Economist print edition

Water shortages are a growing problem, but not for the reasons most people think

Panos



THE overthrow of Madagascar's president in mid-March was partly caused by water problems—in South Korea. Worried by the difficulties of increasing food supplies in its water-stressed homeland, Daewoo, a South Korean conglomerate, signed a deal to lease no less than half Madagascar's arable land to grow grain for South Koreans. Widespread anger at the terms of the deal (the island's people would have received practically nothing) contributed to the president's unpopularity. One of the new leader's first acts was to scrap the agreement.

Three weeks before that, on the other side of the world, Governor Arnold Schwarzenegger of California declared a state of emergency. Not for the first time, he threatened water rationing in the state. "It is clear," says a recent report by the United Nations World Water Assessment Programme, "that urgent action is needed if we are to avoid a global water crisis."

Local water shortages are multiplying. Australia has suffered a decade-long drought. Brazil and South Africa, which depend on hydroelectric power, have suffered repeated brownouts because there is not enough water to drive the turbines properly. So much has been pumped out of the rivers that feed the Aral Sea in Central Asia that it collapsed in the 1980s and has barely begun to recover.

Yet local shortages, caused by individual acts of mismanagement or regional problems, are one thing. A global water crisis, which impinges on supplies of food and other goods, or affects rivers and lakes everywhere, is quite another. Does the world really face a global problem?

Water, water everywhere...

Not on the face of it. There is plenty of water to go around and human beings are not using all that much. Every year, thousands of cubic kilometres (km^3) of fresh water fall as rain or snow or come from melting ice. According to a study in 2007, most nations outside the Gulf were using a fifth or less of the water they receive—at least in 2000, the only year for which figures are available. The global average withdrawal of fresh water was 9%

of the amount that flowed through the world's hydrologic cycle. Both Latin America and Africa used less than 6% (see table). On this evidence, it would seem that all water problems are local.

Waterworld
Water resources and withdrawals
km³ per year, 2000

	Renewable resources	Withdrawals total	Withdrawals % of renewable resources	Withdrawals per person*
North America	6,253	525	8.4	1,664
Asia	13,297	2,404	18.1	644
Europe	6,603	418	6.4	574
Latin America & Caribbean	13,570	265	2.0	507
Africa	3,936	217	5.6	265
World	43,659	3,829	8.8	626

*Cubic metres
Source: UN World Water Development Report

The trouble with this conclusion is that no one knows how much water people can safely use. It is certainly not 100% (the amount taken in Gulf states) because the rest of creation also has to live off the water. In many places the maximum may well be less than one fifth, the average for Asia as a whole. It depends on how water is returned to the system, how much is taken from underground aquifers, and so on.

But there is some admittedly patchy evidence that, given current patterns of use and abuse, the amount now being withdrawn is moving dangerously close to the limit of safety—and in some places beyond it. An alarming number of the world's great rivers no longer reach the sea. They include the Indus, Rio Grande, Colorado, Murray-Darling and Yellow rivers. These are the arteries of the world's main grain-growing areas.

Freshwater fish populations are in precipitous decline. According to the World Wide Fund for Nature, fish stocks in lakes and rivers have fallen roughly 30% since 1970. This is a bigger population fall than that suffered by animals in jungles, temperate forests, savannahs and any other large ecosystem. Half the world's wetlands, on one estimate, were drained, damaged or destroyed in the 20th century, mainly because, as the volume of fresh water in rivers falls, salt water invades the delta, changing the balance between fresh and salt water. On this evidence, there may be systemic water problems, as well as local disruptions.

Two global trends have added to the pressure on water. Both are likely to accelerate over coming decades.

The first is demography. Over the past 50 years, as the world's population rose from 3 billion to 6.5 billion, water use roughly trebled. On current estimates, the population is likely to rise by a further 2 billion by 2025 and by 3 billion by 2050. Demand for water will rise accordingly.

Or rather, by more. Possibly a lot more. It is not the absolute number of people that makes the biggest difference to water use but changing habits and diet. Diet matters more than any single factor because agriculture is the modern Agasthya, the mythical Indian giant who drank the seas dry. Farmers use about three-quarters of the world's water; industry uses less than a fifth and domestic or municipal use accounts for a mere tenth.

Different foods require radically different amounts of water. To grow a kilogram of wheat requires around 1,000 litres. But it takes as much as 15,000 litres of water to produce a kilo of beef. The meaty diet of Americans and Europeans requires around 5,000 litres of water a day to produce. The vegetarian diets of Africa and Asia use about 2,000 litres a day (for comparison, Westerners use just 100-250 litres a day in drinking and washing).

So the shift from vegetarian diets to meaty ones—which contributed to the food-price rise of 2007-08—has big implications for water, too. In 1985 Chinese people ate, on average, 20kg of meat; this year, they will eat around 50kg. This difference translates into 390km^3 (1km^3 is 1 trillion litres) of water—almost as much as total water use in Europe.

The shift of diet will be impossible to reverse since it is a product of rising wealth and urbanisation. In general, "water intensity" in food increases fastest as people begin to climb out of poverty, because that is when they start eating more meat. So if living standards in the poorest countries start to rise again, water use is likely to soar. Moreover, almost all the 2 billion people who will be added to the world's population between now and 2030 are going to be third-world city dwellers—and city people use more water than rural folk. The Food and Agriculture Organisation reckons that, without changes in efficiency, the world will need as much as 60% more water for agriculture to feed those 2 billion extra mouths. That is roughly 1,500km^3 of the stuff—as much as is currently used for all purposes in the world outside Asia.

The other long-term trend affecting water is climate change. There is growing evidence that global warming is speeding up the hydrologic cycle—that is, the rate at which water evaporates and falls again

as rain or snow. This higher rate seems to make wet regions more sodden, and arid ones drier. It brings longer droughts between more intense periods of rain.

Climate change has three big implications for water use. First, it changes the way plants grow. Trees, for example, react to downpours with a spurt of growth. During the longer droughts that follow, the extra biomass then dries up so that if lightning strikes, forests burn more spectacularly. Similarly crops grow too fast, then wilt.

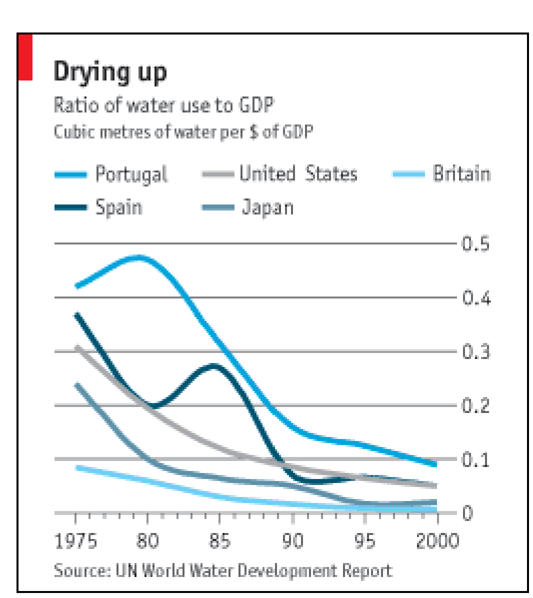
Second, climate change increases problems of water management. Larger floods overwhelm existing controls. Reservoirs do not store enough to get people or plants through longer droughts. In addition, global warming melts glaciers and causes snow to fall as rain. Since snow and ice are natural regulators, storing water in winter and releasing it in summer, countries are swinging more violently between flood and drought. That is one big reason why dams, once a dirty word in development, have been making a comeback, especially in African countries with plenty of water but no storage capacity. The number of large dams (more than 15 metres high) has been increasing and the order books of dam builders are bulging.

Third, climate change has persuaded western governments to subsidise biofuels, which could prove as big a disaster for water as they already have been for food. At the moment, about 2% of irrigated water is used to grow crops for energy, or $44km^3$. But if all the national plans and policies to increase biofuels were to be implemented, reckons the UN, they would require an extra $180km^3$ of water. Though small compared with the increase required to feed the additional 2 billion people, the biofuels' premium is still substantial.

In short, more water will be needed to feed and heat a world that is already showing signs of using too much. How to square that circle? The answer is by improving the efficiency with which water is used. The good news is that this is possible: vast inefficiencies exist which can be wrung out. The bad news is it will be difficult both because it will require people to change their habits and because governments, which might cajole them to make the changes, are peculiarly bad at water policy.

…nor any drop to drink

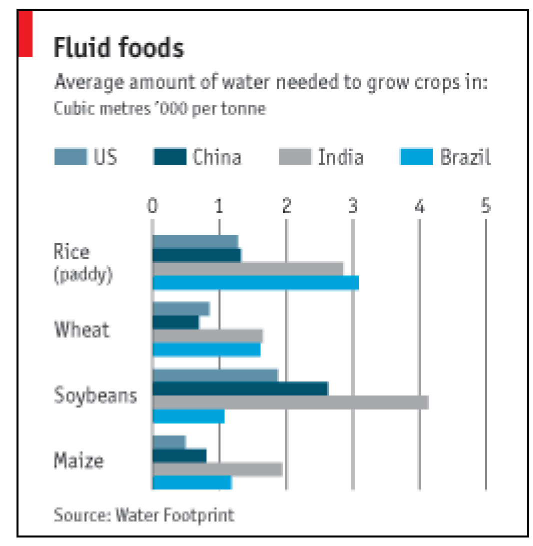
Improving efficiency is doable and industrial users have done it, cutting the amount of water needed to make each tonne of steel and each extra unit of GDP in most rich countries (see first chart). This can make a difference. The Pacific Institute reckons that, merely by using current water-saving practices (ie, no technological breakthroughs) California, a water-poor state, could meet all its needs for decades to come without using a drop more.



Still, industry consumes less than a fifth of the world's water and the big question is how to get farmers, who use 70-80%, to follow suit. It takes at least three times as much water to grow maize in India, for example, as it does in America or China (see second chart). In some countries, you need 1,500 litres of water to produce a kilo of wheat; in others, only 750 litres. It does not necessarily follow that water is being used unsustainably in the one place and not the other; perhaps the high-usage places have plenty of water to spare. But it does suggest that better management could reduce the amount of water used in farming, and that the world could be better off if farmers did so. Changing irrigation practices can improve water efficiency by 30%, says Chandra Madramootoo, of the International Commission on Irrigation and Drainage. One can, for example, ensure water evaporates from the leaves of the plant, rather than from the soil. Or one can genetically modify crops so they stop growing when water runs dry, but do not die—they simply resume growth later when the rains return.

The world might also be better off, at least in terms of water, if trade patterns more closely reflected the amount of water embedded in traded goods (a concept called "virtual water" invented by Tony Allan of King's College London). Some benign effects happen already: Mexico imports cereals from America

which use 7 billion cubic metres (m^3) of water. If it grew these cereals itself, it would use 16 billion m^3, so trade “saves” 9 billion m^3 of water. But such beneficial exchanges occur more by chance than design. Because most water use is not measured, let alone priced, trade rarely reflects water scarcities.



To make water use more efficient, says Koichiro Matsuura, the head of UNESCO, the main UN agency dealing with water, will require fundamental changes of behaviour. That means changing incentives, improving information flows, and improving the way water use is governed. All that will be hard.

Water is rarely priced in ways that reflect supply and demand. Usually, water pricing simply means that city dwellers pay for the cost of the pipes that transport it and the sewerage plants that clean it.

Basic information about who uses how much water is lacking. Rainwater and river flows can be measured with some accuracy. But the amount pumped out of lakes is a matter of guesswork and information on how much is taken from underground aquifers is almost completely lacking.

The governance of water is also a mess. Until recently, few poor countries treated it as a scarce resource, nor did they think about how it would affect their development projects. They took it for granted.

Alongside this insouciance goes a Balkanised decision-making process, with numerous overlapping authorities responsible for different watersheds, sanitation plants and irrigation. To take a small example, the modest town of Charlottesville in Virginia has 13 water authorities.

Not surprisingly, investment in water has been patchy and neglected. Aid to developing countries for water was flat in real terms between 1990 and 2005. Within that period, there was a big shift from irrigation to drinking water and sanitation—understandable no doubt, but this meant less aid was going to the main users of water, farmers in poor countries. Aid for irrigation projects in 2002-05 was less than half what it had been in 1978-81. Angel Gurría, the head of the Organisation for Economic Co-operation and Development, talks of “a crisis in water financing”.

As is often the way, business is ahead of governments in getting to grips with waste. Big drinks companies such as Coca Cola have set themselves targets to reduce the amount of water they use in making their products (in Coke’s case, by 20% by 2012). The Nature Conservancy, an ecologically-minded NGO, is working on a certification plan which aims to give companies and businesses seals of approval (a bit like the Fairtrade symbol) according to how efficiently they use water. The plan is supposed to get going in 2010. That sort of thing is a good start, but just one step in a long process that has barely begun.

Climate change

When glaciers start moving

Apr 8th 2009
From The Economist print edition

Tortuous UN talks on global warming receive some jolts

IN THEORY, the world's governments have over seven months to craft a new treaty to slow climate change before a deadline set by the United Nations. But in practice, points out Yvo de Boer, head of the UN agency that monitors the current Kyoto protocol, only a few weeks of scheduled negotiations remain.

Yet with America's tree-hugging new leadership in place, and with a green stimulus suddenly in vogue, the outlook for a deal at the climate jamboree in Copenhagen at the end of the year has brightened somewhat. So it was with keen anticipation that the first of a series of preparatory pow-wows opened last week in Bonn.

The numbing proceedings of the (drum roll, please) First Meeting of the Fifth Session of the Ad Hoc Working Group on Long-term Co-operative Action under the United Nations Framework Convention on Climate Change jolted to life at the first speech by an American envoy since Barack Obama replaced the climate-insouciant George Bush as president. "We are very glad to be back, we want to make up for lost time and we are seized with the urgency of the task before us," said Todd Stern, America's negotiator, to loud applause.

But the rapture soon subsided, as differences re-emerged over how fast and far countries should cut their greenhouse-gas emissions. Mr Stern stuck to Mr Obama's proposal that America should trim its emissions back to the level of 1990 by 2020. That was not enough for some 70 poor and low-lying countries, most faced with rising waters and withering crops. They said rich countries should reduce their emissions to 45% below 1990's output by then. Mr Stern muttered about pragmatism. Poor countries retorted that they did not see floods or famine as pragmatic options. On the knotty but crucial question of how to reduce deforestation and the emissions it causes, progress was scanty.

Mr de Boer suggested that a deal in Copenhagen would involve rich countries accepting big cuts and helping poor ones to curb the growth of their emissions with handouts of cash and technology. Agreeing on exact numbers, however, will be difficult. Many climate pundits assume the meat of a deal will be reached in other, smaller groupings. Mr Obama plans to reconvene Mr Bush's much-reviled club of countries responsible for most of the world's emissions, now renamed the Major Economies Forum. He has also sent Mr Stern and Hillary Clinton, his secretary of state, to talk to China about climate.

Reuters



A prince dressed for eco-action

The slowness of negotiations is stirring anxiety in some quarters. As green activists moaned, the G20 summit in London risked neglecting climate at the expense of economics. But not entirely: Prince Charles, heir to the British throne, used the moment to call in senior types from Brazil, Indonesia and America, among other places, to discuss short-term efforts to protect tropical forests before a UN-backed plan kicks in. With the leaders of Japan, France, Germany and Italy in attendance, it may have been the highest-level talk about trees ever held. Participants listened with approval to their host's idea that new ways be found for rich states, and investors, to send cash—swiftly but conditionally—to poor, forested countries.

As the UN talks inched on, news came that an "ice bridge" yoking the Wilkins ice shelf to the Antarctic Peninsula had snapped. That may set adrift an iceberg as big as Jamaica, and speed the flow of hitherto pent-up glaciers into the sea. Whether it will energise diplomats is less clear.

Economist.com BUSINESS

Activist investors

Flight of the locusts

Apr 8th 2009 | PARIS
From The Economist print edition

Will the retreat of activist investors give industrial bosses more leeway to manage?

Illustration by David Simonds



A YEAR ago Stephan Howaldt, the chief executive of Hermes Focus Asset Management Europe, a British activist fund, was in full cry against the Pesenti family, an Italian industrial dynasty. The fund had taken a stake in Italmobiliare, a financial holding company controlled by the family, which in turn controls Italcementi, the world's fifth-largest cement-maker. Hermes demanded a performance review for Carlo Pesenti, Italcementi's chief executive, and said the cement firm should sell its stakes in unrelated businesses such as newspapers and banking. Things got personal: the family executives, Mr Howaldt said, became "unusually closed-up".

Italcementi's management was therefore delighted when Hermes said in January that it was reorganising its fund and replacing Mr Howaldt. The fund's activist style had been "disproportionately hit" by the financial crisis, it explained. Hermes still owns shares in Italmobiliare, but its management is not expecting much further pressure for change.

Around the world, activist funds are on the back foot, performing poorly, facing investor withdrawals and struggling to assemble the financial firepower to take on new targets. The activist technique of investing in a few underperforming companies and pressing for change is particularly difficult in falling markets, as other investors seek safe havens. In America investors began only two new activist campaigns in the fourth quarter of 2008, down from 32 in the preceding nine months and 61 in 2007, according to Thomson Reuters, a provider of financial data. William Ackman, a well-known activist who started a fund to pursue Target, a discount retailer, wrote to investors in February to apologise for the fund's "dreadful performance". It has fallen in value by around 90%.

In continental Europe, where shareholder activism is a newer phenomenon, corporate chiefs will be quick to seize on signs of failure. On March 26th the chief executive of Wendel, a prominent French investment fund, resigned after an activist investment in Saint-Gobain, a 344-year-old French building-materials firm, went disastrously wrong. Shares in Saint-Gobain fell precipitously after Wendel's investment, dragging down the fund's own performance. In recent years, comments Alain Minc, a business consultant in Paris,

financial investors were encouraged by cheap liquidity to think they were geniuses who knew better than chief executives how to run companies. In future, he says, they will need real industrial credentials.

On April 2nd Christopher Hohn, chief of The Children's Investment Fund (TCI), a British hedge fund labelled a "locust" in Germany for its aggressive tactics, abandoned its efforts to force further change at Germany's main stock exchange. It cut its stake in Deutsche Börse from 10% to below 1%. Last year Mr Hohn conceded that activism is "unpredictable and expensive" in current market conditions. In Japan, too, activists are backing down; in October last year, for instance, TCI sold out of J-Power, the country's former state-run energy wholesaler, having failed to influence its strategy, and suffered an estimated $130m loss. "Our focus has shifted to buying stocks that don't require activism," says the local manager of another big fund.

To be sure, there is little chance that chief executives will feel less overall pressure from shareholders to perform. But demands from short-term investors are likely to subside. In 2007 Moody's, a credit-rating agency, published a controversial report which concluded that the expansion of shareholder power at American companies was increasing potential credit risk, to the detriment of bondholders and long-term shareholders. Short-term investors in America and Europe, it said, were using new powers such as the ability to nominate board directors to push for actions which could damage credit quality. On top of activists' own difficulties, companies now have a powerful argument to push back against such initiatives. The pressure from investors trying to force through specific changes—such as increased leverage, spin-offs, acquisitions or share buybacks—has receded, probably for several years.

That will delight chief executives. They resented being given advice on important strategic decisions by people with no industrial experience, and feared the long-term consequences of gearing up. "You end up spending too much time in front of these people rather than running your business," says one European boss, who adds that short-term shareholders have been a "plague" on industrial firms.

"Creating value through financial leverage will be harder in future, so we can get back to our real job," says Hakan Samuelsson, chairman of MAN, a German truckmaker, "which is creating industrial value through technology, innovation and efficient manufacturing." He expects less pressure to sell businesses, because the perceived value of divisions that generate cash is greater now that credit is more expensive. Conglomerates, therefore, stand a better chance of staying intact or even bulking up further over the next few years. Mr Samuelsson also expects more patience for organic growth.

"The dialogue with long-term shareholders has never been as robust," says Jean-Pascal Tricoire, the president and chief executive of Schneider Electric, a 171-year old French firm which makes equipment for electrical distribution and industrial control. "I believe financial investors are now increasingly realising that industrial people can manage and develop businesses very well."

In America, too, the financial crisis offers an opportunity to push back against short-term pressure from shareholders, so that managers can go back to running firms for the long term, says Martin Lipton, a Wall Street lawyer who has questioned the value of shareholder activism. Quarterly reporting to Wall Street, long unpopular with industry, is now under fire for having contributed to a push for higher returns and more risk-taking in banking. But American bosses are unlikely to take much comfort from any shift to a longer-term philosophy. Public anger at banks has spilled over into broad fury at corporate chiefs and their pay, and they expect more rather than less scrutiny.

As chief executives regain the freedom to manage, they may seize the opportunity to invest for the long term. But there is also a risk they will indulge in empire-building and roll back improvements in corporate governance. "As activism subsides the result is likely to be that management will tend to become even less accountable, and whether that is in the long-term interests of shareholders is a serious question," says Nathan Gelber of Stamford Associates, a pension-fund consultancy in London. In Japan in particular, the retreat of activist investors is lamentable.

At some firms vocal fund managers are being replaced by a new kind of activist: the government. Barack Obama proved himself more brutal than any hedge fund when he removed Rick Wagoner as the boss of General Motors last month. But having ousted managers they hold responsible for past failures, governments will seek to build big, stable companies capable of increasing employment, rather than stripping them down in the name of efficiency and shareholder value. On March 29th Christian Streiff, chief executive of PSA Peugeot Citroën, was also ousted, possibly because the French government was infuriated by his plan to cut 11,000 jobs at the firm, announced two days after taking a big loan from the state. Industrial bosses should take note: the wind has changed direction, for a few years at least.

New vehicles

General Motors' strange new prototype

Apr 8th 2009
From The Economist print edition

Emile Wamsgteker



It looks like a giant wheelchair, or half a small car. It is in fact the Personal Urban Mobility and Accessibility (PUMA) vehicle, developed by General Motors with the help of Segway, which provided the electronic stabilisation system that also appears in its much-derided scooters. The electrically powered PUMA can travel up to 35 miles (56km) on a charge, at speeds of up to 35mph. A built-in internet link helps it avoid traffic and find a parking space where it can plug in and recharge. Sceptics may wonder why GM, which is flirting with bankruptcy, is wasting time on such a crazy idea. Is it to highlight its ability to innovate—or to divert attention from the car giant's woes?

Spanish companies

Big in America?

Apr 8th 2009 | MADRID
From The Economist print edition

Spanish firms hope to benefit from America's stimulus plan

AMERICAN companies are not the only ones hoping for a boost from Barack Obama's economic stimulus plan. Spanish firms are also positioning themselves to benefit from what they call *el Plan Obama*. Other foreign companies are jostling for some of the $317 billion of intended spending, but Spain is the only country to have built a campaign around it.

The country's golden couple, crown prince Don Felipe and his wife Letizia, launched a "Made in/Made by Spain" campaign in New York last month to put Spanish firms on the map. The scale of the opportunity is "extraordinary", says Spain's industry minister, Miguel Sebastian. He reckons Spanish firms are eligible for at least $71 billion of contracts. That is as much as Spain is spending on its own €50 billion ($67 billion) stimulus package, which has failed to prevent unemployment from topping 15%. The figure is expected to hit 20% as the country suffers a painful comedown from its construction-led boom. Spanish officials hope extra business in America will help make up for a lack of growth at home.

Spanish companies think they are especially well-placed to benefit from the American stimulus because two of the scheme's main pillars are spending on renewable energy and infrastructure—industries in which Spain is particularly strong. America aims to double the production of energy from renewable sources in the next three years. Iberdrola, Spain's largest power company, is a world leader in wind power and the second-biggest wind operator in America after Florida Power and Light. Two other big Spanish firms, Acciona and Abengoa, are also active in this field.

Mr Obama's plan to invest in infrastructure, such as airports and high-speed trains, sits neatly with another of Spain's strengths. Of the ten biggest construction firms specialising in transport, six are Spanish. Spanish firms, including Ferrovial, ACS, OHL and FCC, have pioneered public-private partnerships in the construction and operation of infrastructure in Florida, Illinois, Texas and other states, some of which already benefit from federal funding.

The timing is right for other reasons. Spain's relations with the previous American administration became strained after Spain withdrew its troops from Iraq in 2004. The arrival of Mr Obama represents something of a clean slate—though Spain's recent unilateral withdrawal of soldiers from Kosovo, without warning, has not gone down too well in Washington.

Despite the optimism, however, Spain should probably not pin too much hope on *el Plan Obama*. Even if Spanish firms win some big contracts, most of the jobs will go to Americans, not Spaniards, and they will pay taxes in America. Any profits will either be reinvested by the Spanish companies or paid in dividends to shareholders, some of whom are foreign. Going in too strong also carries other risks, including a protectionist backlash. The stimulus package already includes "Buy American" provisions requiring some materials, such as steel, to be sourced in America.

There is also scepticism about whether Spain's marketing campaign can really do much to change stereotypes of bullfighting and flamenco. "Efforts to promote a country brand are expensive and of doubtful effectiveness," says Mauro Guillen, a professor at the Wharton School of business. At least the latest campaign, organised by the Instituto Español de Comercio Exterior, is a more targeted affair than previous efforts. It will showcase specific companies and industries in a few big American cities.

Although some companies are happy to let Spain lobby on their behalf, others are reluctant to fly the flag. Often they are competing fiercely with fellow Spaniards for contracts. And some Spanish giants prefer to be seen as global firms with a local presence in America. They would rather emphasise their expertise in a specific industry and play down their nationality.

There is a widespread lack of knowledge about Spain in America, notes Javier Noya of the Real Instituto Elcano, a think-tank in Madrid. His organisation recently conducted a survey which found that 40% of

Americans believe Placido Domingo, a famous Spanish opera singer, is Italian. In that context, getting Americans to recognise the technological prowess of Spanish companies looks a little ambitious.

Energy in Japan

Raising the stakes

Apr 8th 2009 | TOKYO
From The Economist print edition

Low prices and a strong yen give Japanese firms an opportunity to buy abroad

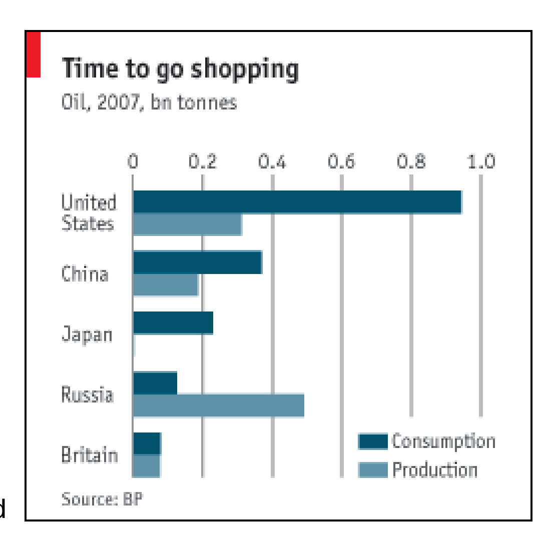
WHEN *Energy Frontier*, an enormous tanker, glided into Tokyo Bay on April 6th from Sakhalin Island, she was not just carrying the first shipment of liquefied natural gas (LNG) from a problematic Russian venture, under a deal signed 15 years ago. She was also bearing the symbolic weight of Japan's aspirations to greater energy security. Lacking natural resources, Japan imports more than 95% of its energy. Almost all its oil and a quarter of its LNG come from the Middle East. To reach Japan ships must travel for 20 days, passing near pirate-infested waters. Sakhalin, by contrast, is just three days away.

In 2006 the Japanese government called on industry to increase its ownership of foreign energy projects to cover 40% of Japan's energy needs, up from 15% at the time. The idea was to make the country less dependent on the spot market in case of trouble by taking stakes in various energy projects around the world. But as prices soared and China became a keen buyer, slow-moving Japanese firms found themselves being shut out of deals.

Today, however, many energy projects are starved of capital because of the credit crunch, energy prices are low and the yen is strong. Since mid-2008 the price of crude oil has fallen by two-thirds and the yen had at one point appreciated by as much as 20% against the dollar. This has given Japanese energy firms a window of opportunity to make foreign acquisitions.

In January Nippon Oil bought rights to oilfields in Papua New Guinea. Inpex, Japan's largest oil-development company, has acquired rights to oil in South America and Australia. A consortium that includes Nippon Oil and Inpex is vying for rights to a project in southern Iraq. And this month Hugo Chávez, Venezuela's president, visited Tokyo to sign energy deals.

"We have been very quietly shifting the gravity of our strategy from exploration and 'greenfield' projects to acquisitions and exchange deals," says Tadashi Maeda of the Japan Bank for International Co-operation (JBIC), a state-backed lender for foreign projects. Deals rather than digging lets Japan obtain resources faster, he says. JBIC can put around $12 billion a year towards energy acquisitions.



The Japanese government's 40% target is immaterial, Mr Maeda asserts. Instead, JBIC's aim is to ensure that the market functions smoothly and that the fuel can be transported to Japan if necessary. A stake in an oilfield does not always entitle the owner to a share of its output, rather than a share of the revenue when the oil is sold on the open market. But ownership helps absorb the shock of sudden price increases or tight supply. And some contracts do specify that in the event of a crisis, output is reserved for the owners.

So far the Japanese firms' deals have been small, raising concerns that they may be missing their chance to buy at a favourable time, says David Hewitt of CLSA, a broker. Yet the hesitation is understandable. Lower energy prices means certain projects are no longer viable. Some firms, including Mitsubishi and Mitsui, are expected to have to write off portions of recent investments, making them wary of new deals. Even when capital is available, taking on debt can jeopardise a firm's credit rating. And the recession has reduced Japan's energy use by 10-20%.

Japanese executives also complain that Chinese firms, which have plenty of capital from state-run banks and face less pressure to show profits, are overpaying and driving up prices. JBIC encourages Japanese firms to form consortiums to increase their heft. In February Toshiba, Tokyo Power and JBIC took a joint

20% stake in Uranium One of Canada—a deal that suits everybody's interests but which no party could have achieved on its own.

The shipment of LNG that arrived in Tokyo this month came from the giant Sakhalin II project, set up in the 1990s by Royal Dutch Shell, an Anglo-Dutch oil giant, in partnership with Mitsubishi, Mitsui and other Western firms. At the time it was the only big energy project in Russia that did not involve a local partner. That changed in late 2006 when Shell and its Japanese partners reluctantly agreed to sell a 50% stake to Gazprom, Russia's state-controlled gas giant. This highlighted the political risks involved in the pursuit of energy security—and why having the government represented, via a state-backed lender like JBIC, is not a bad idea.

The Sakhalin II project will produce as much as 9.6m tonnes of LNG a year, 60% of which will go to Japan, accounting for about 7% of its LNG imports. For Japan, the project's proximity is its main appeal. Parts of Sakhalin were Japanese territory in the late 19th and early 20th centuries, and were ceded after Japan's defeat in the second world war. Today's commercial battles are less bloody, but no less intense.

American broadcasting

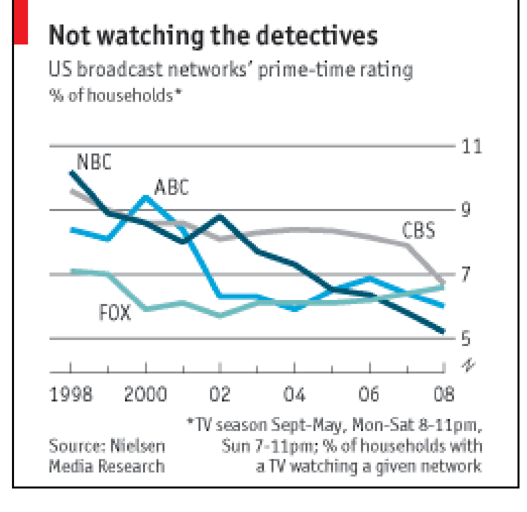
The not-so-big four

Apr 8th 2009 | LOS ANGELES
From The Economist print edition

Broadcast television is declining at an accelerating rate

“IT’S amazing how little has changed around here,” says a character in the final episode of “E.R.”, which aired in America on April 2nd. Indeed, it seemed like old times for the hospital drama: 16m people tuned in, not many fewer than it drew a decade ago. But the impression of good times is no more real than a stage set. For programmes like “E.R.”, and for broadcast television itself, much is changing.

The recession has been cruel to a business that depends almost entirely on advertising. Local television stations, many of them owned by or affiliated with national broadcasters, have seen advertising revenue fall by as much as 40% as car dealers and other retailers cut back. Later this month the national networks will test the market for advance advertising. It should prove better than the local market, but still difficult. And this painful cyclical problem coincides with a bigger, structural one: the audience for the “big four” broadcast networks is eroding (see chart).



It is not that people are watching less television. In the last quarter of 2008 the average American took in 151 hours per month, an all-time record, according to Nielsen, a market-research firm. The trouble is the growth of choice. More than 80% of American households now get their television via satellite or cable. To them, the broadcast channels are just items on a menu containing hundreds of dishes.

The networks can still produce hits. “American Idol” and “CSI”, respectively an amateur singing competition and a forensic-science drama, routinely attract more than 20m viewers—three times as many as the most successful cable shows. But occasional triumphs do not add up to a sustainable business model.

Chris Silbermann, president of International Creative Management, a talent agency, says the big change is that mediocre television now struggles to attract a healthy audience. The ratings seem to back him up. Between the first 12 weeks of 2005 and the first 12 weeks of this year, the audience for the top-rated broadcast show (often “American Idol”) fell by 9%. But the number watching the tenth most popular show was down by 17%, and the audience for the 20th in the list was 18% smaller.

So far, the big broadcast networks have been able to persuade advertisers to spend more for each eyeball they reach. Although they can no longer round up huge audiences, they are still the best way of reaching very large ones. And advertisers tend to see broadcast television, with its consistently wholesome quality, as a safe place to promote their products. Cable is still viewed as a rather wild frontier populated by wrestlers and televangelists.

Yet this, too, is changing. Last year’s Emmy awards were dominated by cable shows. “Mad Men”, which is set in an advertising agency, was voted best drama. It was the first time the award had gone to a show on basic cable (it is shown on the AMC channel) as opposed to a premium network, such as HBO. Such acclaim changes attitudes to cable generally. Bruce Rosenblum, the head of the television group at Warner Bros, reckons the growing profile of original cable shows may gradually erode the huge premium that advertisers will pay for broadcast.

Cutbacks are already under way. The networks have commissioned fewer pilot shows than usual this year, many of them relatively cheap half-hour comedies. With its broadcast network faring poorly, NBC plans to run Jay Leno, a talk-show host, five nights a week at 10pm—the slot where dramas such as “E.R.” once reigned. Some broadcast networks look enviously at cable channels, with their steady streams of income from distributors, and ponder getting out of broadcast altogether.

Such a radical change would involve difficult negotiations with local stations. In the meantime, the broadcast networks should be able to drive harder bargains with both local stations and cable companies. Television producers will find new markets abroad. But the good times appear to be over. Sometimes an industry can withstand pressure for many years, and then collapse abruptly. Just ask a newspaper proprietor.



Edible advertisements

Trading licks

Apr 8th 2009 | NEW YORK
From The Economist print edition

Will newspapers grab consumers by the tongue?

WILLY WONKA would be proud. When Adnan Aziz saw people licking orange-flavoured wallpaper in the film “Willy Wonka and the Chocolate Factory”, it gave him the idea for a novel form of advertising. Together with Jay Minkoff, an entrepreneur, he set up First Flavor, a firm that makes edible films that allow consumers to sample the flavours of foods, drinks and other products.

So far First Flavor has distributed films that taste of grape juice, acai-berry juice, lime-spiked rum and baking-soda toothpaste in shops and magazines, and via direct-mail campaigns. The company even designed a deliberately foul-tasting cigarette-flavoured strip to distribute to schoolchildren as part of an anti-smoking initiative. Now, in partnership with US Ink, a big supplier of newspaper ink, First Flavor has set its sights on a broader and riskier market: newspapers.

Just as retailers stuff American newspapers with coupons and sales promotions, the idea is to get food and drink companies to attach a sealed pouch, containing a flavour sample, to front-page newspaper advertisements for their products. Consumers can then take them for a “taste drive”, puns Mr Minkoff. First Flavor has already run magazine-based campaigns, so edible ads in newspapers are an obvious next step.

The difficulty is that magazine advertising, by its very nature, can be more targeted. Welch’s, an American juicemaker, placed an edible advertisement in *People* magazine in order to reach mothers, for example. First Flavor’s ad campaigns on behalf of SKYY vodka and Captain Morgan’s rum were similarly specific: they involved giving out flavour samples at liquor retailers. Newspapers tend to have a broader readership, which could deter advertisers, since the edible films may appeal to only a small proportion of readers. And unlike scented ads, which can be used to create an aura (a resort, for instance, might use a coconut scent to evoke tropical relaxation), edible ones can only advertise the product itself.

But First Flavor and US Ink think the collapse in newspaper advertising revenue, as a result of the recession and the rise of the internet, provides an opportunity. Internet advertisements can do all sorts of things, but so far there is no way to transmit tastes electronically. Edible ads would allow newspapers to offer something the internet cannot match.

Economist.com BUSINESS

European defence

Heavy going

Apr 8th 2009
From The Economist print edition

The future of Europe's high-tech military transport hangs in the balance

AP



WILL Europe's biggest defence-procurement programme, the Airbus A400M military transport, crash and burn before the aircraft has even flown? The A400M is three years late and €2 billion ($2.7 billion) over budget. Talks to decide its fate are about to begin. They will be a game of high stakes played by OCCAR (the organisation founded 12 years ago to manage collaborative military projects on behalf of member governments), the four countries who have collectively placed 84% of the 192 orders for the giant plane, and EADS, the parent company of Airbus, which is struggling to build it.

If agreement cannot be reached on how to continue with the €20 billion programme, EADS will have to return as much as €5.7 billion in advance payments—more than half the defence group's net cash. It would be a humiliating admission of defeat both for Europe's defence industry and for the sponsoring governments, which would have to turn to America for a replacement aircraft.

The trigger for the showdown is the failure of Airbus to meet a commitment to have flown the A400M by the end of March. Under the terms of a contract signed in 2003, this gives customers the right to cancel their orders. Rather than do so at once, the governments involved have agreed to a three-month moratorium during which time an attempt will be made to salvage the project.

Most observers believe a fudge of some kind will be found to keep the A400M alive. Louis Gallois, the chief executive of EADS, says that not only do European defence ministries need a plane with a unique combination of capabilities, but the jobs of up to 40,000 highly skilled workers are at stake. However, a recent report from the French Senate suggested that the plane could end up being four years late. The Germans sound increasingly cool about the project. And the French and the British, who are desperate for additional heavy-lift capacity to support their operations in Afghanistan, are busy looking for ways to bridge the gap.

One (far from ideal) solution would be to buy or lease a combination of Boeing's C-17—a much bigger military transport that is now only slightly more expensive than the A400M—and an updated version of Lockheed Martin's venerable C-130. Were that to happen, orders for the A400M might be cut, leading to an even higher unit price for remaining aircraft.

As for EADS, Mr Gallois's soothing words are in stark contrast to recent comments by Tom Enders, Airbus's German chief executive. Mr Enders regards the fixed-price contract negotiated by one of his predecessors, Noël Forgeard, as a disaster rooted in naivety, excessive enthusiasm and arrogance. "If you had offered it to an American defence contractor like Northrop, they would have run a mile from it," he says. Mr Enders believes that unless the contract can be substantially renegotiated, the project should be abandoned and, however financially painful it might be, Airbus should return the money to its customers. In an interview with *Der Spiegel* two weeks ago, he said: "Better an end with horror than horror without

end.”

There are a number of reasons why the A400M contract has proved such a disaster for Airbus. One is that the firm, which had no previous experience of big military programmes, grossly underestimated the complexity of the aircraft that it was being asked to build. The view within Airbus was that the A400M was little more than a “flying truck”. But the A400M is one of the most technically difficult aircraft projects ever undertaken.

Somewhere between a C-130 and C-17 in size and payload, the A400M is designed to have the smaller plane’s ability to fly very slowly and land on unprepared airstrips close to the battlefield, yet come close to the speed of the jet-engined C-17 and exceed its range. To pull this off, the A400M needs extremely sophisticated software to manage its propulsion systems—three times as complex as the software needed for the engines of the A380 superjumbo, according to EADS—and turboprop engines of a size and power never before produced in the West.

Just in case that was not hard enough, Airbus allowed its customers to bully it into rejecting a bid to supply engines from Pratt & Whitney, a vastly experienced American firm. Airbus plumped instead for a politically-inspired consortium that included France’s Snecma, Britain’s Rolls-Royce, Germany’s MTU and Spain’s ITP. Still worse, Airbus took the highly unusual step of accepting full contractual responsibility for the delivery of the propulsion-management software, known as FADEC, even though it had little or no control over its development.

Fasten your seatbelts

The TP400-D6 engine has at least now flown, albeit on a C-130 testbed, but the software is still months from delivery and the A400M’s first flight is not expected until next year. Even then there are doubts whether the aircraft will meet all its performance goals. In particular, there are fears that early versions may be too heavy to carry more than 30 tonnes of payload over long distances. That would rule out lifting Germany’s 31.5-tonne Puma armoured fighting vehicle for more than short hops.

Despite all these problems, most of those involved with the A400M are still betting that it will survive: too many people have too much riding on it and no other aircraft is as flexible. If it does take to the air, the plane will have a breadth of talent that nothing else matches. But such is the frustration and anger on all sides that a different outcome is more than possible. The Americans are watching closely.

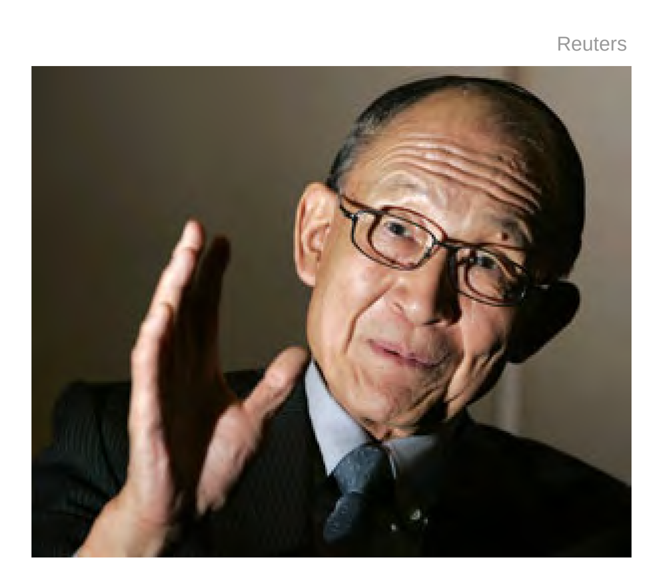
Face value

Sauce of success

Apr 8th 2009
From The Economist print edition

How Yuzaburo Mogi of Kikkoman helped turn soy sauce into a global product

Reuters



AT THE International Trade Fair in Chicago in 1959, visitors were delighted by the salty-savoury taste of roast beef marinated in a novel condiment called soy sauce; slices were being given away by young Japanese men. What the nibblers did not know was that the foreigners were not merely demonstration staff but workers at the saucemaker's new American unit, who wanted to see at first hand how American consumers responded to their product. Among them was Yuzaburo Mogi, a 24-year-old student at Columbia Business School and the scion of one of the founding families behind Kikkoman, a soy-sauce manufacturer which traces its origins to the early 17th century.

By the time he reached the top of the firm in 1995, Mr Mogi was well on his way to transforming it into an international food business and turning an obscure Asian seasoning into a mainstream global product. "We tried to appeal to the non-Japanese, general-market consumer," says Mr Mogi, who speaks fluent English—a rarity among Japanese bosses. Kikkoman is now the world's largest maker of naturally brewed soy sauce. Foreign sales of its sauce have grown by nearly 10% a year for 25 years. Its distinctive curvy bottle has become commonplace in restaurants and kitchens the world over, alongside other condiments such as Italian olive oil or French mustard. Interbrand, a brand consultancy, ranks Kikkoman among the most recognisable Japanese names in a list otherwise dominated by carmakers and electronics firms.

Indeed, this family-owned Japanese firm is unusual in several ways. In 1973 it became the first Japanese food company to open a factory in America; Mr Mogi was running the American division by this time. Whereas many Japanese firms eschew mergers and acquisitions, Kikkoman has been active, buying American and Japanese companies in the course of its expansion. (In January Kikkoman adopted a holding-company structure which will make acquisitions easier, among other things.) Mr Mogi speaks with pride about corporate-governance reforms he has instituted, including succession planning. Since 2004 the firm's presidents have come from outside the founding families. And rather than being centrally run from Tokyo, Kikkoman is known for devolving power to the bosses of its foreign subsidiaries.

Under Mr Mogi's leadership Kikkoman's sales have grown to more than $4 billion a year, of which soy sauce accounts for 20%. Most of the firm's revenue now comes from selling other food products, in Japan and abroad. Kikkoman is the biggest wholesaler of Asian foodstuffs in America, with similar operations in Europe, China and Australia. It sells canned fruit and vegetables in Asia under the Del Monte brand, and one of its subsidiaries is Coca-Cola's bottling affiliate in Japan. Foreign sales account for 30% of revenue but 55% of operating profit, three-quarters of which comes from North America. By some measures Kikkoman is the Japanese firm most dependent on the American market.

The recession has hit Kikkoman's profits, but it is relatively well protected. "In a recession, demand shifts from restaurants to household consumption," Mr Mogi explains, so what his company loses in one market it makes up in the other. Another concern is the value of the yen: the exchange rate against the dollar has gyrated wildly over the past 18 months between ¥90 and ¥125, and is now around ¥100. But Kikkoman buys most of its soyabeans and wheat from America and Canada, so a stronger yen actually reduces its costs. On a cashflow basis the company is unscathed, says Mr Mogi. But the strong yen extracts a toll when the revenue is consolidated in the corporate accounts, he laments. A further frustration for the company is the recent trade quarrel between America and Mexico, a small but growing market for the firm. Last month, after Mexican truckers were banned from America's roads, Mexico retaliated by slapping tariffs on many imports from America, including a 20% duty on soy sauce, which Kikkoman makes at its factory in Wisconsin.

Kikkoman's move into America in the 1950s set the template for the company's foreign expansion. America was the perfect place to venture abroad, says Mr Mogi. It is open to new things and is willing to incorporate novel ingredients into its cuisine. During his time at business school Mr Mogi travelled across America, visiting Asian restaurants. There were very few: in New York he found only eight Japanese eateries. Kikkoman, he realised, had to adapt its sauce to the local cuisine if it was going to succeed. Kikkoman promoted soy sauce in America by hiring chefs to concoct recipes that incorporated the sauce into classic American dishes. The firm then sent the recipes to local newspapers, prompting housewives to cut them out and shop for the ingredients. In the process it started to position soy sauce not as a Japanese product, but as an "all-purpose seasoning", as a housewife puts it in Kikkoman's 1950s television advertisements. The same words can still be seen emblazoned on its bottles.

What's the company's special sauce?

In 1961 the company picked up many new customers by introducing teriyaki sauce—a mixture of soy sauce and other ingredients devised specifically for the American market as a barbecue glaze. Kikkoman is now devising products for South American and European tastes, such as a soy sauce that can be sprinkled on rice—something that is not done in Japan. In Europe and Australia, where consumers are suspicious of biotechnology, Kikkoman's sauce is made without genetically modified ingredients. Mr Mogi is also taking Kikkoman into a foreign market rather closer to home: China. It is a more difficult market to enter than America or Europe, because soy sauce is already part of Chinese cuisine and cheap products abound, often chemically synthesised rather than naturally brewed. Mr Mogi hopes to establish Kikkoman's sauce as a premium product aimed at wealthier buyers. His early recognition of the importance of adapting his firm's product for foreign markets is Kikkoman's real special sauce.

The IMF

Mission: possible

Apr 8th 2009
From The Economist print edition

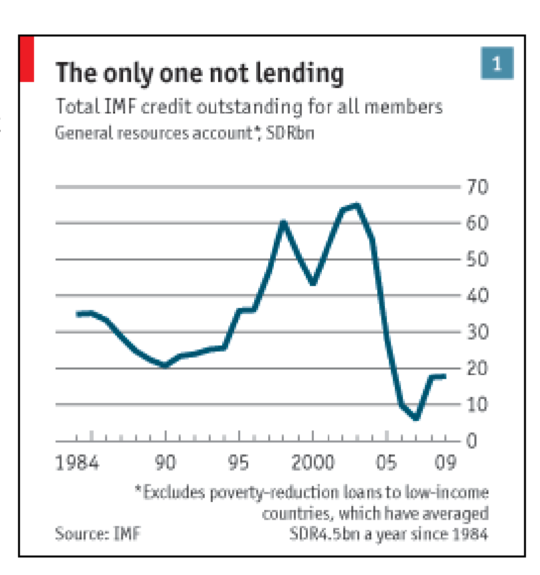
The IMF has been promised lots more money and has a new sense of purpose. But reform is still needed—especially if it is to win the trust of emerging economies

Illustration by Belle Mellor



AS RECENTLY as last October the International Monetary Fund seemed to be sliding towards terminal irrelevance. For several years, emerging economies had been making fewer and fewer demands on its rescue services (see chart 1). They were awash with private flows—and many of them had been building up vast reserves of their own for a rainy day. Even as the world sank into a financial crisis, there was scant demand for the roughly $250 billion in the fund's coffers. The talk at the fund's headquarters was less about its role in sorting out the global financial crisis than about whether it had one. Budget cuts forced it to persuade some staff to take early retirement.

The IMF is no longer at the margins. At a press conference in London after the G20 summit on April 2nd, its managing director, Dominique Strauss-Kahn, could barely contain his delight when he said of the meeting's communiqué that "each paragraph, or almost each paragraph—let's say the important ones—are in one way or another related to IMF work."



The leaders of the world's biggest rich and emerging economies decided in London that the IMF should both have more resources and play a broader role in the world economy than in the past. They said that the fund's resources were to be increased by $500 billion to $750 billion, and that it would be allowed to issue $250 billion-worth of its own quasi-currency, the Special Drawing Right (SDR), to ease liquidity in emerging and developing economies (see article). The G20 also expects the IMF to ensure "candid, even-handed, and independent surveillance" of big economies and their banks, of the impact of their policies on others and of risks facing the global economy.

Cynics will argue that the summiteers trumpeted the strengthening of the fund because this was the one substantive thing they were able to agree on. They made no new promises on co-ordinated budgetary

stimulus, for example, and the details of what the G20 will do for trade finance remain uncertain (see article). Even so, it is indisputable that the G20 meeting confirmed a steady rise in the IMF's star in recent months. It has recently overhauled its lending schemes, along with the conditions attached to its loans, and already begun providing funding that looks more like crisis insurance than its usual loans for countries that have got into trouble. China and Russia have even talked about making it the issuer of a global reserve currency to replace the dollar.

But what matters for the world is not the fortunes of the institution itself so much as its ability to execute the tasks it has been assigned. For that the IMF must show intellectual leadership in debates about the global economy; it will need the right tools to tackle the problems it identifies; and it will have to acquire the legitimacy to ensure that its diagnoses and recommendations are taken seriously. Its ability to do all this will depend on what is done to address the root causes of the fund's former marginalisation. This means tackling still unresolved questions about the supply of resources to the IMF, the way it lends that money to governments in need, the demand for loans from emerging economies and the way the fund is governed.

Start with the fund's $500 billion of extra resources, the centrepiece of the G20's announcements. This is not entirely new, and where it will all come from is not clear. Only a $40 billion loan from China, still not confirmed by the Chinese government, was unknown before the summit. Another $200 billion comes from adding two lots of $100 billion already promised by Japan, whose government signed an agreement with the IMF in February, and the European Union. That leaves $260 billion to find. Some has been trickling in: Canada has offered $10 billion and Norway $4.5 billion. America is expected to provide $100 billion. Contributions from Saudi Arabia and other emerging economies are also expected.

Despite doubts about the extent and novelty of these new resources, the fact remains that the IMF has more money available. Even without it, the fund still had about $150 billion left to lend this year. So what explains the widespread agreement that the fund needed bulking up urgently?

Part of the reason that the IMF needs more money is the flight of private capital from emerging economies. The Institute of International Finance, a bankers' group, expects capital flows to emerging economies to be 80% lower than in 2007. This means that many more will have to turn to the IMF (or other official sources) to avoid drastic cuts in domestic spending. In addition, the fund wants to provide crisis insurance to large emerging economies suffering a temporary loss of liquidity but with basically sound policies.

Rather than negotiate a loan once a country is already in dire straits, the IMF would offer a contingent line of credit. This would have none of the policy strings attached to the usual IMF loans. The country would not have to draw down the line of credit unless it needed to; but the credit's existence would give investors confidence in its ability to ride out the storm.

The first such arrangement, of $47 billion, has been requested by Mexico under a new IMF programme, the Flexible Credit Line (FCL). Although it is not yet known how popular the scheme will prove, it is clear that the fund could not credibly claim to want to support other countries on such a scale unless it had much more money. The Mexican package, if drawn down, would take one-third of what the fund had left to lend this year.

Even more important, the creation of a beefier but gentler IMF will give emerging economies a credible alternative to the practice of building up enormous foreign-exchange reserves. Many countries have done this in the past decade to protect themselves against fluctuations in capital flows or commodity prices. Given the opportunity to insure with the IMF, countries should have less need to insure themselves with vast reserves or to arrange large bilateral swap lines. When emerging economies have reserves worth several hundred billion dollars each, the IMF could not possibly have provided a credible alternative to self-insurance with a kitty of no more than $250 billion.

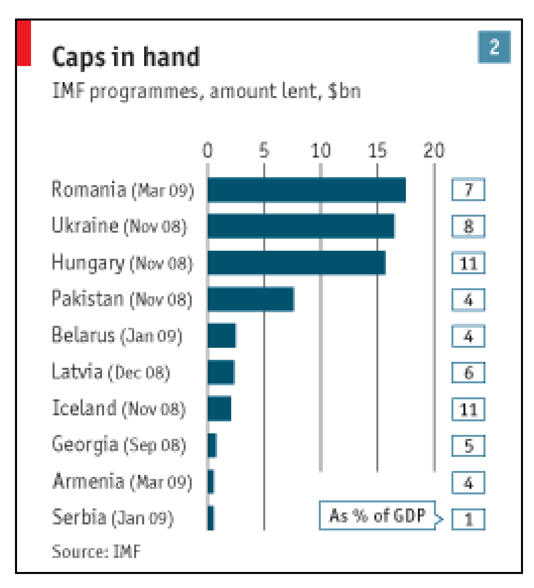
Supply and demand

In essence, the approach of the past few months has been to address the supply side of the IMF's problems by ensuring that lack of funds will not hold it back. But tackling the demand side is just as important—and governments have been understandably reluctant to ask for help.

Because countries usually approach the IMF only when they are in deep trouble, the fund attaches demanding conditions to its loans. These typically include cuts in budget deficits, often by slashing public

expenditure, or increases in interest rates. An IMF loan has thus become shorthand for austerity, making politicians who turn to it (and the fund itself) unpopular. Markets, too, tend to treat even a rumour of an imminent call on the IMF as a sign that matters have spun out of control. As a consequence, countries avoid the fund until they have run out of options. This was much in evidence with Pakistan, one of the early borrowers from the fund in the current crisis (for the full list, see chart 2). The country scrambled to arrange bilateral bail-outs, approaching China and Saudi Arabia before finally turning to the fund.

None of this means that the fund should avoid imposing conditions when mismanagement has led a country into crisis, or that it is about to stop doing so. But the political and market stigma attached to the very name of the fund could hinder its ability to act as an insurer. Governments are unlikely to want crisis insurance from the IMF if they believe that voters and investors will desert them.



The IMF's awareness of this problem is clear from the careful design of its new insurance instrument, the FCL, which replaced the Short-Term Liquidity Facility introduced by the fund last October. That attempt to help well-run countries found no takers. According to Alejandro Werner, Mexico's deputy finance minister, his country was attracted not just by the flexibility and size of the new facility, but also by the fact that the IMF consulted emerging economies while designing the programme to ensure that it met their needs.

Although Mexico's response to the FCL is a good sign, the stigma of borrowing from the IMF remains a concern. Asked about his country's interest in the programme, Brazil's president, Luiz Inácio Lula da Silva, replied "with a lot of pride...that Brazil needs no money from the IMF." Asian economies are particularly wary of the fund after what many consider to be its botched rescues in the crisis of 1997-98. The governor of Indonesia's central bank said on April 6th that political considerations are likely to preclude an approach to the IMF under the new scheme.

The shame of borrowing from the IMF may also make it harder for the fund to develop its new job as insurer in order to reduce global imbalances. Eswar Prasad, a former head of the IMF's China unit now at the Brookings Institution, a Washington think-tank, has an ambitious idea that would see the fund charge premiums for supplying crisis insurance. Mr Prasad proposes premiums that vary according to countries' economic policies. Countries following policies that drove up global risks (either by running huge surpluses or deficits) would have to pay more, much as premiums for car insurance depend on a driver's past safety record. This would allow the IMF to use its insurance function explicitly to tackle global imbalances.

Yet this, too, is a hostage to the fund's reputation. An almost visceral dread of having to approach the IMF, especially after the Asian crisis, was at least partly responsible for the enormous build-up of reserves to begin with. Mr Prasad acknowledges this, saying that "the main emerging markets are going to remain wary of relying on the IMF for emergency financial support until they are convinced that the leopard has really changed its spots."

Running (from) the fund

Emerging economies may dread the IMF; developed ones disdain it. Rich countries have never been receptive to its criticisms of their policies or responsive to its suggestions. The attitudes of both rich and poor are influenced by who runs the fund and for whom it speaks.

Emerging economies do not trust the IMF because they do not think they have enough say in it. Rich countries, which have the bulk of power within the institution, do not take it seriously. And the fund, ever aware of who holds the purse strings, is "excessively hesitant in talking to rich countries about faults in their policies," according to Raghuram Rajan, a former chief economist of the IMF and a professor at the University of Chicago Booth School of Business (and author of this week's Economics focus).

The balance of power in the IMF is reflected in the votes of its member countries. These are broadly aligned with countries' "quotas" or shareholdings, which after several rounds of reform are still largely a legacy of the global distribution of economic might at the end of the second world war. Even after the proposed change to vote shares, Brazil, with 1.72% of the votes, will have less weight than Belgium, with 1.86% (see table 3). Together, European countries will still have more than 30% of the votes and America

will have nearly 17%. The G20 wants the IMF to implement the most recently agreed quota changes by October, and to bring the next round of quota reform, scheduled for 2013, forward to January 2011. But a more ambitious quota reform, to bring about a significant change in power, will involve arduous negotiations: larger shares of the votes for big emerging economies will mean smaller shares for rich ones. Without such a shift or some creative thinking, it is hard to see the fund winning more legitimacy among emerging economies.

One idea, which would be relatively easy to put into practice, would be to loosen Europe's grip on the appointment of the IMF's managing director. (The head of the fund's sister institution, the World Bank, is by convention an American.) The G20's commitment to ensure that "the heads and senior leadership of the international financial institutions should be appointed through an open, transparent, and merit-based selection process" is clearly a nod in this direction. This is not the same as choosing the bosses "irrespective of nationality", as demanded by the finance ministers of Brazil, China, India and Russia when they met last month. But Mr Rajan says that even the weaker commitment by the G20 leaders makes him "fairly certain that the next selection process will not be a closed one." The IMF, he says, will have to try fairly hard to give the appearance of change. At the very least, non-European candidates will have to be seen to be seriously in the running, even if a European ends up with the job.

Unfair? 3

IMF votes

	Share, %	
	existing	proposed
United States	16.77	16.73
Japan	6.02	6.23
Britain	4.86	4.29
France	4.86	4.29
China	3.66	3.81
Russia	2.69	2.39
Belgium	2.09	1.86
India	1.89	2.34
South Korea	1.38	1.36
Brazil	1.38	1.72

Source: IMF

There is no shortage of ideas for reforming the fund's governance. An IMF-appointed committee headed by South Africa's finance minister, Trevor Manuel, reported to the fund on March 24th. It recommended a cut in the percentage of votes needed for the fund's most important decisions from 85% to 70-75%. The existing threshold amounts to a veto for America, with its 17% share. Reducing it to 70% would have removed another source of emerging-country discomfort. The G20's communiqué did not mention the idea.

Nor did the G20 refer explicitly to another idea from Mr Manuel's committee: to create a supervisory IMF council consisting of finance ministers and central-bank governors, which would provide a forum for co-ordination and strategic decisions crucial to global stability. According to Mr Rajan, this would take strategic decisions out of the hands of bureaucrats and entrust them to people with greater political legitimacy. He also argues that the importance of repeated and regular interaction at a high political level should not be minimised. It would make it easier for emerging and rich countries to discuss policy more openly and frankly than they can now. But the G20 did not go beyond an oblique reference to the need for "greater involvement of the fund's governors in providing strategic direction to the IMf."

Votes for all

Even quota reform, hard though it is, need not be impossible. Mr Prasad has an innovative idea about how quotas could be adjusted to the realities of the global economy. He suggests shrinking all existing quotas by 20%, so that a country that at the moment has 10% of the votes would have 8%. Then the 20% of quotas freed up could be auctioned, with an upper limit (say 14.9%) on any country's share. In effect, this would give more voice in the IMF to those who want it most, giving them a greater stake in its success.

All these ideas recognise the importance of making the IMF an institution that reflects the changes over the years in the global economy. It will soon have the necessary firepower to act credibly both as a lender in a crisis and a provider of insurance against one. It has shown some nimbleness by rethinking the way it lends in order to meet the needs of large emerging economies better.

Nevertheless, there is still a long way to go before the fund becomes an institution that is both trusted by the emerging world and respected by the rich, and is therefore a venue for effective multilateral financial co-operation. Without further changes to the way it functions and is run, it may find itself beset by some of the same underlying problems that were pushing it to the margins before the crisis brought it back. And it may be unable, in spite of its much fuller coffers, to make a serious dent in the problems of the global economy.

Special Drawing Rights

Held in reserve

Apr 8th 2009
From The Economist print edition

A brief guide to the IMF's "currency"

SPECIAL Drawing Rights, or SDRs, are often referred to as the IMF's currency. Although that is useful shorthand, the SDR is not, in fact, a currency, but rather the IMF's unit of account. The value of an SDR is defined as the value of a fixed amount of yen, dollars, pounds and euros, expressed in dollars at the current exchange rate. The composition of the basket is altered every five years to reflect changes in the importance of different currencies in the world's trading system.

SDRs nevertheless represent a potential claim on other countries' freely usable currency reserves, for which they can be exchanged voluntarily. Alternatively, countries with strong external finances can buy SDRs from countries which need hard currency. On April 2nd the G20 countries authorised the IMF to issue $250 billion in new SDRs. The advantage of a fresh SDR issuance is that it immediately augments countries' foreign reserves without needing to be lent.

However, this benefit comes with a serious drawback. Although the G20 portrayed the new SDRs as a quick way of channelling resources into emerging economies, SDRs are in fact allocated in proportion to countries' existing IMF quotas (see table).

This means that around $170 billion of the $250 billion of new SDRs that are to be issued will land in the reserves of rich countries, because they have the lion's share of existing IMF quotas. Still, the increases in the reserves of some emerging economies are not trivial. South Korea's will grow by $3.4 billion, India's by $4.8 billion, Brazil's by $3.5 billion and Russia's by $6.9 billion. Another sign of the instrument's bluntness can be seen from the fact that China's vast reserves, already nearly $2 trillion, will go up by $9.3 billion.

Unfair? 3

IMF votes

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Belgium	2.09	1.86
India	1.89	2.34
South Korea	1.38	1.36
Brazil	1.38	1.72

Source: IMF

Of course, the IMF hopes that some rich countries (or reserve-rich emerging ones) will lend their share of the new SDR allocation to those in greater need. But this is by no means guaranteed. America, for example, needs Congress's approval to part with its share. The last proposed SDR allocation, of $21.4 billion, was approved by the IMF's board in 1997. But although 131 countries with 78% of the total votes in the IMF accepted the proposal, it was never put into effect. Such decisions require 85% support—and America, with nearly 17% of the votes in the IMF, never approved it.

Financial markets

Whistling in the dark

Apr 8th 2009
From The Economist print edition

There are still plenty of shadows looming over the stockmarket

Illustration by S. Kambayashi



ALWAYS look on the bright side of life. Equity investors must have been humming the Monty Python classic last month. In the 14 trading days to March 27th, the S&P 500 index jumped 21%, the steepest rally since 1938.

But while stockmarkets were celebrating, the corporate-bond market saw 35 defaults, the largest number of non-payers in a single month since the Depression, according to Moody's. The default rate is now 7%, up from 1.5% a year ago, and the rating agency predicts that it will reach 14.6% by the fourth quarter.

As American companies begin the first-quarter earnings season, the news on that front is hardly encouraging either. Profits are forecast to be down by 37%, according to Bloomberg. That will be the seventh straight quarterly drop, the longest losing stretch since, yes, the Depression.

So what explains this dichotomy between share prices and fundamentals? Markets fell so far, so fast that they already reflected a lot of bad news. And prices rarely drop in a straight line. They often rebound as investors who have gone short (bet on falling prices) take profits. There were five rallies of 20% or more between 1930 and 1932, during the worst bear market in history.

Investors have also been encouraged by signs that the pace of recession is slowing down. This factor has been dubbed "the second derivative", or the rate of change of the rate of change. Bulls have taken heart that some of the strongest recoveries have been seen in emerging markets, usually the most geared play on the global economy. March's 14.2% gain in the MSCI emerging-markets index was the best since December 1993.

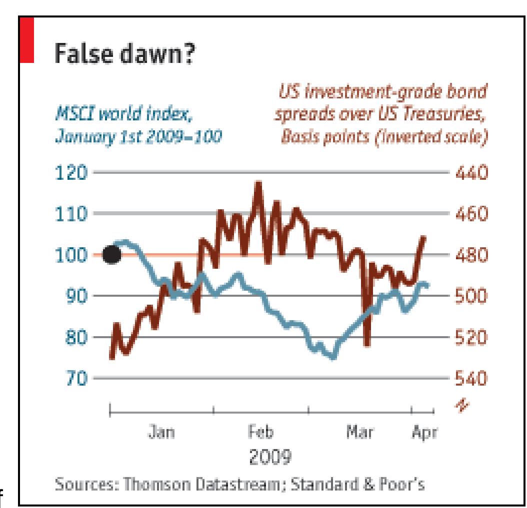
But David Rosenberg of Bank of America Merrill Lynch, one of the few Wall Street economists to predict the current recession, is sceptical. He points out that although the Institute of Supply Management's index of American manufacturing has rebounded from 32.9 to 36, the latter figure is still the fourth worst in the last 27 years. Capital Economics, a consultancy, says its recovery index suggests the probability that the American recession has ended is less than 10%.

Other indicators also cast doubt on the idea of a sharp rebound. The Baltic Dry Index of freight rates is

seen as a measure of global trade activity (although it is also affected by the supply of shipping). It bottomed in December, a staggering 94% below the May 2008 high. From that point, it more than trebled by early March, a sign of a rebound in activity. But it has since resumed falling and is down by around a third in the last four weeks. Nor is there any sign of a big pickup in commodity prices; the Dow Jones AIG index is above its recent low on March 2nd but is still less than half last July's peak.

What seems to have happened is that the sense of extreme panic, marked in November and February, has receded. Volatility, as measured by the Vix contract on the Chicago Board Options Exchange, is around half last year's high.

Global authorities are throwing everything they can at the crisis, and the hope is that a combination of low interest rates, fiscal stimulus and quantitative easing (the equivalent of printing money) will eventually succeed. A consequence of quantitative easing, that central banks have become buyers of corporate debt, has helped that market rally, if not as sharply as equities (see chart).



In the meantime, the desire to hold cash at virtually zero interest rates is waning. According to HSBC, this year there have been no net inflows into American money-market mutual funds. Investors have been willing to hunt for bargains in bonds: spreads on high-yield bonds have fallen by more than three percentage points from their peak.

But investors' enthusiasm could yet be tested by a further round of bad news. The results season will be the first test. Three out of four companies that have issued guidance for the first quarter have steered investors lower. In the second quarter of 2007, less than half warned of negative outcomes. Citigroup thinks the peak-to-trough decline in global profits will be 50%.

Commercial property may also give investors as many headaches as residential. One of Boston's most notable buildings, the John Hancock Tower, recently sold at a foreclosure auction for $660m. In 2006 it was bought for $1.3 billion. Standard & Poor's, another rating agency, has said that many commercial mortgage-backed securities are highly susceptible to downgrades. The spread over Treasuries of the index by Markit, a data provider, of AAA-rated North American commercial mortgage-backed securities is now almost six percentage points, compared with just over one point last May.

The economic data, having stabilised a little, could always turn down again. The relentless rise in unemployment will inevitably weigh on consumer sentiment. Industrial-production numbers in many advanced countries are still showing double-digit annual declines.

Teun Draaisma, a Morgan Stanley strategist who has been one of the most successful forecasters of the market's recent ups and downs, thinks the bear market is not over yet. The fundamentals in terms of corporate profits, house prices and bank lending have not yet bottomed, in his view. And valuations are not yet at fire-sale levels; the cyclically adjusted price-earnings ratio of the American market is 14.5, compared with previous bear-market lows in single digits. The dividend yield on the S&P 500 index is just 3.2%, and payouts are likely to be cut.

Of course, markets can spot recoveries in profits and economic fundamentals well before they are confirmed by the official data. Investors might be showing such exceptional foresight at the moment, or they may simply be spotting imaginary signs of life in a dead parrot.

Buttonwood

Spin and substance

Apr 8th 2009
From The Economist print edition

What the G20 did and did not achieve

Illustration by S. Kambayashi



IT WAS not Bretton Woods. The G20 meeting in London did not redesign the architecture of the financial system. Nor did it tame the wild beasts of Anglo-Saxon capitalism, as the French and Germans wanted it to. It did, however, overlay a mixed bag of reforms with some good British spin.

The problem the world leaders faced was that they were grappling with subjects that had little resonance with most recession-struck voters. Terms like “counter-cyclical capital” and “macro-prudential regulation” may trip easily off Gordon Brown’s tongue, but do not make tabloid headlines. So the British prime minister had to apply his well-known creative accounting and conjure up, in agreement with his “Gang of 20” colleagues, a boost of $1.1 trillion for the global economy.

It rescued the summit from disaster. But was there any substance to the reforms that the headline-writers shied away from? First, counter-cyclical capital. This is an updated version of Joseph’s biblical injunction to store the harvest in fat years to prepare for the lean ones; banks should build up more capital in booms (when it is easy to raise) in order to prepare for a bust. Good in theory, but in practice, banks will do their utmost to evade it (see Economics focus). It will mean, over the cycle, that they will have more capital on average and thus lower profits. Limits on the levels of debt they can carry will have the same effect. These provisions will probably do more to cap bankers’ bonuses than any attempt to control pay though governance codes or explicit regulation. But the real test of contra-cyclicality will only come at the peak of the next boom, and that is years away.

The same is true of macro-prudential regulation, the idea that a group of wise men can focus on systemic risk, rather than get bogged down in the details of individual firms’ finances. In theory, such a council of wisdom would have spotted that the American housing boom was causing banks to become overexposed to the finances of subprime borrowers.

The creation of this global watchdog has required the Financial Stability Forum to be transformed into, wait for it, the Financial Stability Board. The FSF was associated with the unrepresentative G7; the FSB will represent the whole G20. That it shares the initials of the Russian secret service might be an attempt to make it a bit more scary. It needs to be.

Collaborating with the IMF, it is meant to ferret out macroeconomic and financial risks. But if it warns, who will listen? Imagine the scene in Congress in 2015. The economy is booming, but Americans cannot get mortgages because some pen-pusher in Basel says the banks are taking too much risk. The banks would be freed faster than you can say “swing voter”.

Even at the national level, macro-prudential regulation is hard. First, regulators tend to be captured by the industry. Second, the seeds of disaster are sown when all looks well; the economy is booming and banks have healthy profits. It takes an iron will to be contrarian at such times.

How about hedge funds? Regulation and oversight will be extended to those that are “systemically important”, a definition that leaves plenty of leeway. Which funds are systemically important becomes clear only when they fail. If American hedge funds are required to register with the Securities and Exchange Commission, this will hardly cause a mass exodus from Connecticut; British managers have coped with being regulated by the Financial Services Authority. Most funds will be far more concerned about the reactions of their clients, who have been disappointed by negative returns and the inability to

withdraw their money, than a G20-inspired crackdown.

Then there is the toxic-asset plan. The G20 communiqué is quite clear: international bodies should aim for "full and transparent disclosure of the impairment of banks' balance-sheets". Meanwhile, any asset-purchase scheme, such as America's Public Private Investment Programme, should transfer risk to taxpayers "at a fair price".

Hard to square that, however, with the decision of America's Financial Accounting Standards Board, announced as the G20 met, to give banks more flexibility in valuing assets. If banks can choose between keeping the assets on their balance-sheets, at a value of their choosing, and selling them to governments, written down to a fair price, it is not difficult to imagine which they will pick.

In sum, the G20 regulatory changes call to mind Dr Johnson's opinion of a manuscript as both good and original. The G20 scheme is both good and timely, but the bits that are timely are not good and those that are good are not timely.

Trade finance

The cavalry of commerce

Apr 8th 2009
From The Economist print edition

With G20 cash in their saddlebags, export-import banks ride to the rescue

AP

Pile 'em high and sell 'em cheap

TRADE is shrinking at the fastest rate since the second world war. The global economy's woes are largely to blame, but scarce trade finance, especially in emerging markets, hardly helps. In November the World Trade Organisation put the shortfall at $25 billion, but by March the gap had widened to between $100 billion and $300 billion. At the G20 summit on April 2nd, the leaders vowed to reverse this trend by ensuring the availability of at least $250 billion over the next two years to support trade finance.

What that lofty figure represents is unclear. The little official information there is suggests that as much as $200 billion would flow through export-credit agencies (ECAs), such as America's Export-Import Bank, which specialise in trade finance. The G20 suggested that up to $50 billion of "trade liquidity support" would come via the World Bank.

ECAs have long thrived in obscurity. They are "the unsung giants of international trade and finance," in the words of Delio Gianturco, author of a book on the industry. Some agencies are government-sponsored, others private, and others a bit of both. Euler Hermes, for instance, is the public ECA in Germany, but also competes privately in other markets.

One of the ECAs' main tasks is to insure payment to exporters between the time when their goods are delivered and when they receive money for them. With liquidity tight, the risk of non-payment has risen hugely. The ECAs have been asked to stump up additional cover.

Few object to the goal of reinvigorating trade. Many, however, are less sanguine about the role of the ECAs. In the past, they have aroused the suspicions of both free-market advocates and non-governmental organisations (NGOs). The first group frets that cheap, government-subsidised insurance not only distorts investment decisions but also risks politicising them. They also contend that government backing crowds out private competition. NGOs worry about what they see as a lack of environmental and social awareness among the agencies.

Much of this criticism is outdated, say the ECAs. Previously they may have supported national champions, but now they are professionally—and independently—run. Private insurers cover large swathes of the market—indeed, some ECAs are purely private. The public ECAs argue that they mainly insure exports to high-risk countries which the private sector would steer well clear of. But this argument does not always wash with the critics. Why, they ask, should taxpayers be daredevils in places where private investors are not?

Nevertheless, could this be the public ECAs' moment in the sun? During the credit crunch, they have had more flexibility with capital and liquidity than their private-sector counterparts. Often, their charter is simply to break even in the long run, which should give them an edge in times of crisis. But there is also a danger that they will once again attempt to pick winners. In that case the politicians' push for more trade may come at the expense of fair trade.

The Federal Reserve

Sacred territory

Apr 8th 2009 | WASHINGTON, DC
From The Economist print edition

The hyperactive Fed finds its cherished independence is on the line

THE Federal Reserve has ventured ever further into the political realm, propping up failing companies, lending to industries other than banks and financing the federal budget through purchases of Treasury bonds. Now the politicians are threatening to respond in kind.

By law, the Fed is independent. The president and Congress can do no more than name its seven governors, including the chairman. The governors share responsibility for monetary policy with presidents of the 12 reserve banks which are supervised by the board; these presidents are appointed by their banks' boards and confirmed by the governors.

That Congress may not audit the Fed or approve its budget provides an added element of security. But that may now be at risk. "The role of the Fed has changed dramatically, so the usual defence of, well, we shouldn't intrude in the integrity and independence of the Fed, I think, no longer applies," said Max Baucus, chairman of the Senate Finance Committee, on March 31st. Gene Dodaro, who heads the Government Accountability Office (GAO), Congress's investigative arm, complained that his ability to monitor federal support for the financial system is hamstrung because the GAO cannot audit the Fed's monetary-policy or lending operations.

Two days later, when the Senate voted for a federal-budget outline, it included a non-binding resolution giving the Senate authority to audit the Fed and requiring the central bank to disclose the name of anyone to whom it lends. A less draconian resolution requires the Fed to describe its collateral at regular intervals and calls for an "evaluation" of the Fed's reserve banks. Congress has often targeted these banks, whose presidents are more likely to vote for higher interest rates than the governors. Even friends of the Fed question the usefulness of the 12 banks and their geographical distribution, which reflects the country's political make-up in 1913.

When viewed in isolation, the resolutions do not amount to much, since they do not aim to intrude on monetary policy and are not binding. Carrying them out would require a change in the law which is unlikely for now. The Fed itself has begun a "top-to-bottom" review aimed at boosting its transparency, although it is highly unlikely to agree to name borrowers. A possible alternative to giving the GAO auditing authority would be giving more powers to the Fed's own inspector-general.

The latest actions are troubling nonetheless. The Fed's interventions have been defensible given the scale of the crisis and lack of alternatives, but they have exposed it to public anger over bail-outs for bankers. Tim Geithner, the treasury secretary, owes his recent problems in part to having overseen the bail-out of American International Group, an insurer, in his previous job as head of the New York Fed.

The controversy also comes at a delicate moment for the Fed. Two governors' seats are vacant and Ben Bernanke's four-year term as chairman ends next January. The Fed also needs favours from Congress: it would like authority to issue debt securities to soak up the excess liquidity its rescue operations have created, or for the Treasury to have authority on its behalf. The Treasury is seeking to revamp financial rules and give the Fed more sway over the financial system. Hostile congressmen could seize on such initiatives to impose changes that the Fed doesn't want.

As if to pre-empt threats to its independence, the central bank and the Treasury released a joint statement last month affirming their shared responsibility for financial stability and the Fed's sole responsibility for monetary policy. It was meant to be reassuring, but it mostly served to emphasise how much the Fed has become entangled in fiscal and financial policy.

Indian banks

For I'm a jolly good fellow

Apr 8th 2009 | DELHI
From The Economist print edition

Does India need foreign banks?

THE Reserve Bank of India (RBI) turned 75 on April 1st. Older than the country itself, the central bank is conservative and unimpressed by fads. Shortly before its birthday, it released a six-volume assessment of India's financial system, carried out with the Ministry of Finance. While other financial regulators are flagellating themselves for their failings, the RBI was pleased with what it saw in the mirror.

India's banks seem robust: their bad loans could double without leaving them short of capital, according to the RBI's stress test. It noted with pride that the country had escaped the banking crises that have crippled other emerging economies in recent decades. It attributes this lack of drama partly to India's state-owned banks, which still hold about 70% of the system's assets. It even thinks their bosses belong to that rarest of breeds: the underpaid banker. The head of India's biggest private bank, it points out, earns almost 45 times more than the boss of the much larger State Bank of India (SBI).

The RBI's birthday was not the only reason to mark April 2009 in the financial calendar. Foreign banks also looked forward to the date. According to the RBI's "roadmap", laid out four years ago, it was due this month to review the onerous restrictions under which foreign banks labour. They hold only 8% of the system's assets and were allowed to open only 16 branches between them in the year to March 31st 2008, even as the SBI alone opened 913. Standard Chartered, which has 90 offices in the country, offered to open 100 rural branches, according to Digby Jones, Britain's former trade minister. It was refused. Nor are foreign banks allowed to buy a ready-made branch network by taking over an Indian bank.

In a "desperately underbanked country the size of India, this is unpardonable", says Ajay Shah of the National Institute of Public Finance and Policy in Delhi. But if the RBI's self-assessment is any guide, it is in no hurry to follow the roadmap any further. Its report casts doubt on the benefits of foreign entry, arguing that India's new private-sector banks already benefit from nifty technology and sophisticated management. It also noted the dangers. It no doubt worries that if a troubled foreign parent abandoned its local offspring, it might pose a threat to financial stability, as many feared would happen in central and eastern Europe.

The bottom line

Indian banking statistics by type of bank, March 31st 2008

	Public-sector	New private-sector*	Old private-sector	Foreign
Number of banks	28	8	15	28
Number of offices	53,338	3,623	4,642	280
Share of assets, %	69.8	17.2	4.5	8.4
Pre-tax profit as % of assets	1.2	1.3	1.5	3.2

Source: Reserve Bank of India

*Banks created after reforms in 1993

Nothing will force the RBI's hand until India appoints a new finance minister after its elections, which finish on May 13th, and foreign banks get back on their feet, says Mr Shah. Policymakers from Britain and America used to rail against India's financial protectionism, but they are now preoccupied at home. Citigroup is hunkered down, but Standard Chartered may still have the wherewithal to grow in India, if given the opportunity. Other banks from China, the Gulf or Japan may be tempted. Foreign banks, which appeal to companies and richer Indians, are more profitable in India than their local rivals (see chart). India will never resemble Latin America or central Europe, which have sold much of their banking systems to the West. But the RBI argues that it is already more liberal than its neighbours. In China, for example, foreign banks only hold about 2% of assets. The RBI also permits foreign banks to set up "non-bank financial companies", such as Citigroup's Citi Financial which offers retail loans but does not take deposits.

There are other ways for outsiders to profit from India's financial evolution. Although no single investor can own more than 10% of an Indian bank, foreign investors as a whole own 65% of ICICI and 48% of HDFC, India's two biggest private banks (if their depository receipts are counted). Both shares have plummeted since January 2008. But the RBI will celebrate many more birthdays before foreigners can take a more direct stake in Indian banking.

Japanese banks

A capital affair

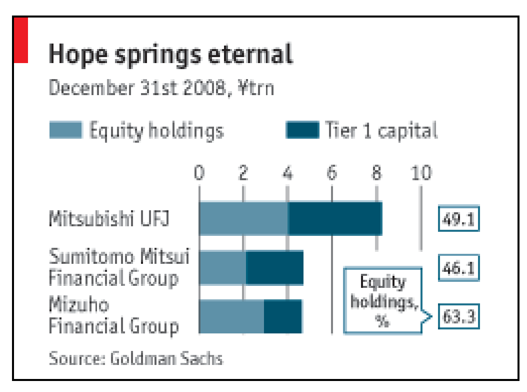
Apr 8th 2009 | TOKYO
From The Economist print edition

The investments of Japanese banks in other firms create a vicious circle

IN A country where social relations are paramount, Japanese banks are so loyal to their customers that they hold shares in them. That loyalty has been tested for almost 20 years whenever the stockmarket lurches lower. But still the banks cling on to their shares, carrying around ¥10 trillion-worth ($100 billion) on their books.

The trouble is, the further the market falls, the more banks have to write down the asset values on their balance-sheets, which increases their losses. It also shrinks the tier-one capital that they hold as a cushion against further losses, constraining their ability to lend.

The country's three "megabanks"—Mitsubishi UFJ Financial Group (MUFG), Mizuho and Sumitomo Mitsui Financial Group (SMFG)—are particularly vulnerable. Their shareholdings as a percentage of tier-one capital range from just below 50% to above 60% (see chart). The trio are expected to post losses this year.



But in Japan, even the titans find it hard to break with tradition, especially one that dates back to the Meiji era in the late 1800s when Japan began to industrialise. Capital was scarce and banks felt they had a role to support national industry; taking a stake in a borrower showed that their fates were united. Moreover, most banks were linked to companies within corporate families, called *zaibatsu*. That smoothed trade within and outside the groups.

After the second world war, huge conglomerates were forbidden and replaced by the *keiretsu*, a network of individual companies working together. Cross-shareholdings remained routine.

For most of the postwar period, the arrangement was highly lucrative. As share prices soared, balance-sheets swelled. This in turn pushed share prices higher. But after the bubble burst in 1990, it took a decade for regulators to begin forcing banks to reduce their shareholdings. In 2002 the government capped the ratio of equities to tier-one capital at 100%, which marked the beginning of the reduction (with the state itself as a buyer). Now, as then, requiring banks to dump their shareholdings altogether—however laudable—would run the risk of turning a bear market into a rout.

Although today shareholdings remain huge compared with bank capital, the ratio is a third of the 150% of a decade ago. And although Japanese banks own 5% of the value of the country's stockmarket, this too is far below the 20% they owned in 1985. So however troubling the problems remain, the banks can at least point to improvement.

Japanese banks must deduct a percentage of certain unrealised losses from their shareholdings from their tier-one capital. According to UBS, every 10% drop in the Nikkei 225 Stock Average requires banks to raise from ¥13 billion to ¥190 billion apiece to replenish their tier-one ratios to around 7.5%. That would still be below 8%, the level considered safe in the current climate.

Raising funds is painful. In February Mizuho said it would issue ¥80 billion in preferred securities to rebuild its capital, but pay an annual fixed coupon of almost 15%—a cost it almost certainly cannot cover from its earnings. More recently it declined to redeem a $1.5 billion security at the first possible date, underscoring its need to preserve capital.

In recent weeks, the government has offered to inject capital into the banks and has set aside ¥20 trillion to buy many of the wilting shares from them. That would enable the banks to strengthen their balance-sheets further, preserve capital and keep on lending. But most banks have resisted: relying on the state

would suggest they are in trouble. And selling would require them to crystallise the losses rather than let hope—that one day the stockmarket may miraculously recover—spring eternal. In the season of cherry blossoms, hope is all they have.

Psychology and trading

Stress testing

Apr 8th 2009
From The Economist print edition

The crisis is likely to make traders take riskier decisions to avoid losing money

IT HAS long been known in financial markets that people are so reluctant to lose money that they will take big risks to avoid it. If you give the average person a 90% chance of winning a little money or a 10% chance of winning a lot, he will most likely take the option that offers him at least a little bit of cash. But offer him a 90% chance of losing a little money or a 10% chance of losing a lot, and he will opt for the latter. A recent study finds that stress exacerbates this.

Anthony Porcelli and Mauricio Delgado, psychologists at Rutgers University in New Jersey, set out to analyse the sorts of financial risks people were willing to take when calm or stressed. They knew finance could be stressful at the best of times. Stockbrokers, for instance, make important financial decisions in split seconds in conditions that are sometimes noisy, hot and socially tense, they noted in *Psychological Science*, a journal. Does this affect their judgment?

Getty Images



My left hand is freezing

The experiment involved students playing a gambling game. To stimulate stress, for part of the game half had their main hand in very cold water. The students faced financial decisions that varied in both the degree of risk and the amount of money that could be won or lost. They could choose between, say, an 80% chance of losing 75 cents and a 20% chance of losing $3 or an 80% chance of winning 75 cents and a 20% chance of winning $3. They could keep anything they won.

The psychologists found that exposure to stress led participants to choose riskier decisions when trying to decide between taking a minor loss or a major one. The reverse proved true with gains.

One potential explanation for the effect might be that the human brain has two ways of looking at the world, an analytical one and an intuitive one. The analytical one is more easily disrupted by outside stimuli, such as stress. The intuitive one cuts to the bottom line when times are tough.

Professional traders with years of experience should still make reasonable decisions when forced to respond to situations under stress since their intuitions are well honed. Thus, increasing stress should not disrupt their activities much as long as circumstances are not so unusual that they disturb their intuition.

What is worrying is that today’s traders are in truly uncharted (and very cold) waters, and under such conditions, experience is little help; split-second decisions have to be taken that have never been encountered before. As a result, traders could be vulnerable to the phenomena seen in the study, says Valerie Reyna, co-director of the Centre for Behavioural Economics and Decision Research at Cornell University in New York. Ideally, one way for governments to improve the situation would be to give people a better sense of what is going wrong and how to fix it, explains Ms Reyna. Unfortunately, governments seem to be almost as disoriented as everyone else at the moment. So the traders are likely to take bigger risks to avoid loss, just like the students.

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Economics focus

Cycle-proof regulation

Apr 8th 2009
From The Economist print edition

In a guest article, Raghuram Rajan argues for a regulatory system that is immune to boom and bust

Raghuram Rajan



Mr Rajan is a professor at the University of Chicago Booth School of Business and a former chief economist of the IMF.

AS THE G20 summit showed, we typically regulate in the midst of a bust. That is when righteous politicians feel the need to do something, bankers' frail balance-sheets and vivid memories make them eschew risk, and regulators have their backbones stiffened by public disapproval of past laxity.

But we reform under the delusion that the regulated, and the markets they operate in, are static and passive, and that the regulatory environment will not vary with the cycle. Ironically, faith in draconian regulation is strongest at the bottom of the cycle, when there is little need for participants to be regulated. By contrast, the misconception that markets will take care of themselves is most widespread at the top of the cycle, at the point of most danger to the system. We need to acknowledge these differences and enact cycle-proof regulation.

If we don't, there are many dangers. Recent reports have argued for "counter-cyclical" capital—raising bank capital requirements a lot in good times, while allowing them to fall somewhat in bad times. While sensible *prima facie*, these proposals may be far less effective than intended.

That is because in boom times, the market requires banks to hold very low levels of capital, in part because euphoria makes losses seem remote. So when regulated firms are forced to hold more costly capital than the market requires, they have an incentive to shift activity to unregulated operators, as banks did with structured investment vehicles and conduits during the current crisis. Even if regulators are strengthened to prevent this shift in activity, banks can subvert capital requirements by taking on risk the regulators do not see or do not penalise adequately.

Attempts to reduce capital requirements in busts are equally fraught. The risk-averse market wants banks to hold a lot more capital than regulators require, and its will naturally prevails. Even the requirements themselves may not be immune to the cycle. Once memories of the current crisis fade and the ideological tide turns, there will be enormous political pressure to soften capital requirements or their enforcement.

The three Cs

To have a better chance of creating stability through the cycle—of being cycle-proof—new regulations should be comprehensive, contingent and cost-effective. Those that apply comprehensively to all leveraged financial firms are likely to discourage the drift from heavily regulated to lightly regulated institutions during the boom. This drift is a source of instability since the activities that heavily regulated banks hive off often return to haunt them in the bust, through unforeseen channels. Regulations should also be contingent so that they have most force when the private sector is most likely to do itself harm, but impose fewer restrictions at other times. This will make regulations more cost-effective and so less prone to arbitrage or dilution.

What form could such regulations take? First, instead of asking institutions to raise permanent capital, ask them to arrange for capital to be infused when they or the system is in trouble. Because these "contingent-capital" arrangements will be entered into in good times when the chances of a downturn seem remote, they will be cheap (compared with raising new capital in the midst of a recession) and thus easier to enforce. Because the infusion is seen as an unlikely possibility, firms cannot raise their risk

profile, using the future capital as backing. And since it comes at bad times, when capital is scarce, it protects the system and the taxpayer.

One version of contingent capital is for banks to issue debt which would automatically convert to equity when both of two conditions are met: first, the system is in crisis, either based on an assessment by regulators or based on objective indicators; and second, the bank's capital ratio falls below a certain value*. The first condition ensures that banks that do badly because of their idiosyncratic errors, rather than because the system is in trouble, don't avoid the disciplinary effects of debt. The second condition rewards well-capitalised banks by allowing them to avoid the dilutive effect of the forced conversion (the number of shares the debt converts to will be set at a level so as to dilute the value of old equity substantially). It will also give banks that anticipate losses an incentive to raise new equity.

A collateral benefit is that, anticipating forced conversion, banks will raise new capital expeditiously when they make losses, thus protecting taxpayers. Of course, learning from the recent experience of foreign investors who put in money just before American banks declared more losses, new equity investors will need to be convinced that banks have disclosed fully all potential losses they know about.

Another version of contingent capital is the requirement that systemically important, and leveraged, financial firms buy fully collateralised insurance policies (from unleveraged firms, foreigners, or the government) that will capitalise these institutions when the system is in trouble**. Yet other versions would require banks to issue capital to top up losses based on public signal†.

Got any weekend plans?

There could also be regulations aimed at institutions regarded as "too big to fail". Imposing limits on their size and activities will become very onerous when they are growing fast, thus increasing the incentive to water down any curbs. Perhaps, instead, a more cyclically sustainable approach would be to make them easier to close. What if firms big enough to pose a threat to the stability of the financial system were required to develop a plan that would enable them to be resolved over a weekend?

Such a "shelf-bankruptcy" plan would require banks to track, and document, their exposures much more carefully, probably through better use of technology. The mechanism would need to be stress-tested by regulators periodically and supported by legislation—such as one to facilitate an orderly transfer of the institution's swap books to third parties. Not only would the need to develop a plan give these institutions the incentive to reduce needless complexity and improve management, it would not be particularly onerous in the boom, and might force management to think the unthinkable.

A crisis offers us a rare opportunity to implement reforms. The temptation will be to over-regulate, as we have done in the past, only to liberalise excessively over time. It would be better to think of regulation that is immune to the cycle.

For a discussion of this article, see Economist.com/freeexchange

*The idea for convertible debt with two triggers is developed by the Squam Lake Group and their proposal is laid out in greater detail in cfr.org/publication/19002

**The idea for collateralised insurance is by Anil Kashyap, Raghuram Rajan and Jeremy Stein, and their proposal is laid out in kc.frb.org/publicat/sympos/2008/KashyapRajanStein.03.12.09.pdf

†The idea for capital topped up automatically is by Oliver Hart and Luigi Zingales, and their proposal is explained in experts.foreignpolicy.com/posts/2009/03/30/to_regulate_finance_try_the_market

Marjorie Deane internship

Apr 8th 2009
From The Economist print edition

Applications are invited for the 2009 Marjorie Deane internship. This award, financed by the Marjorie Deane Foundation, is designed to provide work experience for a promising journalist or would-be journalist, who will spend three months of the summer at *The Economist*, writing about economics and finance. Applicants may also be considered, if they wish, for an internship of similar duration at *CFO Europe*, a sister publication of *The Economist*. Applicants should send a letter introducing themselves, with an original article of no more than 500 words that they think would be suitable for publication in this section of The Economist. Applications should be sent by e-mail to deaneintern@economist.com or posted to the Business Affairs Editor (Deane internship), The Economist, 25 St James's Street, London, SW1A 1HG. They must reach us by April 24th.

Malaria

Resistance is useless

Apr 8th 2009
From The Economist print edition

Evolutionary theory may help to fight a fatal disease

AFP



LIKE many other activities, global health has fashions. For the past couple of decades AIDS has captured both the imagination and the research dollars. Recently, though, the focus has shifted towards malaria, which kills a million people a year, most of them children, and debilitates hundreds of millions more. Insecticide-impregnated bednets designed to stop people being bitten by infected mosquitoes are being scattered throughout Africa. New drugs based on a Chinese herb called *Artemisia* have been introduced. And researchers are vying with one another to be the first to devise an effective vaccine. But the traditional first line of attack on malaria, killing the mosquitoes themselves, has yet to have a serious makeover.

One reason is that time and again chemical insecticides have produced the same dreary pattern. They prove wonderfully effective at first, only to dwindle into uselessness. This is because evolution quickly throws up resistant strains. Indeed, spraying campaigns, which generally aim to kill mosquitoes before they can breed, might have been devised as textbook examples of how to provoke an evolutionary response. With their competitors all dead, the progeny of a mosquito carrying a mutation that can neutralise the insecticide in question have the world to themselves.

The upshot is that discovering a way to retain the anti-malarial benefits of insecticides without provoking an evolutionary response would be a significant breakthrough. And that is what Andrew Read of Pennsylvania State University and his colleagues think they have done. They have rethought the logic of insecticides, putting evolutionary theory at the centre, instead of a simple desire to destroy the enemy. The result is a modest proposal to deal with the problem of resistance.

Euthanasia for mosquitoes

Dr Read started from the observation that it is old, rather than young, mosquitoes that are infectious. Only females can transmit malaria (males suck plant juices, not blood) but they are not born with the parasites inside their bodies. They have instead to acquire them from humans already carrying the disease, and that takes time. Once a female does feed on infected blood, the parasites she ingests require

a further 10 to 14 days to mature and migrate to her salivary glands, whence they can be transmitted to another host when she next feeds. In theory, then, killing only the oldest female mosquitoes—those at significant risk of being infectious—could stop the transmission of the disease. Since these females would have had plenty of time to reproduce before they died, the evolutionary pressure imposed by killing them would be much lower.

To test this insight, the researchers constructed a mathematical model of the mosquito’s life-cycle. They then plugged in data, collected from malaria hotspots in Africa and Papua New Guinea, that describe the insect’s lifespan and egg-laying cycles in those parts of the world and the way that malaria parasites grow inside mosquitoes. The model, which they have just published in the *Public Library of Science*, reveals that selectively killing elderly mosquitoes would reduce the number of infectious bites by 95% and that resistance to such a tactic would spread very slowly, if it spread at all, because mosquitoes vulnerable to a post-breeding insecticide would have had a chance to pass on their vulnerable genes to future generations.

The problem, of course, is to find an insecticide that kills only the elderly. One option is to use existing chemicals, but at greater dilutions. That could work because older mosquitoes are more vulnerable to insecticides than younger ones.

A more radical answer, though, may be to use a completely different sort of insecticide: a fungus. The team are working with fungi that take 10 to 12 days to become lethal. That is short enough to kill parasite-infected insects before they become infectious, but long enough to allow them to breed. A trial of this idea, spraying fungal spores on to bednets and house walls in Tanzania, is being set up at the moment. If it works, it will be a good example of the value of thinking about biological problems from an evolutionary perspective. People will still get bitten, but the bites will merely be irritating, not life-threatening.

The environment

Biofools

Apr 8th 2009
From The Economist print edition

Farming biofuels produces nitrous oxide. This is bad for climate change

MANY people consider the wider use of biofuels a promising way of reducing the amount of surplus carbon dioxide (CO_2) being pumped into the air by the world's mechanised transport. The theory is that plants such as sugar cane, maize (corn, to Americans), oilseed rape and wheat take up CO_2 during their growth, so burning fuels made from them should have no net effect on the amount of that gas in the atmosphere. Biofuels, therefore, should not contribute to global warming.

Theory, though, does not always translate into practice, and just as governments have committed themselves to the greater use of biofuels (see table), questions are being raised about how green this form of energy really is. The latest come from a report produced by a team of scientists working on behalf of the International Council for Science (ICSU), a Paris-based federation of scientific associations from around the world.

Energy rush

Biofuel substitution targets (percentages refer to share of total primary energy* and transport fuel)

Country	Total primary energy	Transport fuel
Australia	-	350m litres
Britain	-	5%† (2010)
Canada	-	5% renewable content in petrol by 2010; 2% in diesel by 2012
France	10% (2010)	7% (2010), 10% (2015)
Germany	4%	5.75%†
Italy	-	2.5%
Japan	-	50m litres from domestic biofuel production (2011)
Netherlands	10% (2010)	5.75%†
New Zealand	90% total electricity	3.4% total transport fuel sales† (2012)
Poland	7.5% (2010) 14% (2020)	5.75%
Spain	12.1%	5.83%† (2010)
United States	-	136 billion litres† (2022)

Source: ICSU/SCOPE International Biofuels Project Rapid Assessment
*Includes biomass
†Mandatory

The ICSU report concludes that, so far, the production of biofuels has aggravated rather than ameliorated global warming. In particular, it supports some controversial findings published in 2007 by Paul Crutzen of the Max Planck Institute for Chemistry in Mainz, Germany. Dr Crutzen concluded that most analyses had underestimated the importance to global warming of a gas called nitrous oxide (N_2O) by a factor of between three and five. The amount of this gas released by farming biofuel crops such as maize and rape probably negates by itself any advantage offered by reduced emissions of CO_2.

Although N_2O is not common in the Earth's atmosphere, it is a more potent greenhouse gas than CO_2 and it hangs around longer. The upshot is that, over the course of a century, its ability to warm the planet is almost 300 times that of an equivalent mass of CO_2. Robert Howarth, a professor of ecology at Cornell University who was involved in writing the ICSU report, said that although the methods used by Dr Crutzen could be criticised, his fundamental conclusions were correct.

N_2O is made by bacteria that live in soil and water and, these days, their raw material is often the nitrogen-rich fertiliser that modern farming requires. Since the 1960s the amount of fertiliser used by farmers has increased sixfold, and not all of that extra nitrogen ends up in their crops. Maize, in particular, is described by experts in the field as a "nitrogen-leaky" plant because it has shallow roots and takes up nitrogen for only a few months of the year. This would make maize (which is one of the main sources of biofuel) a particularly bad contributor to global N_2O emissions.

But it is not just biofuels that are to blame. The ICSU report suggests N_2O emissions in general are probably more important than had been realised. Previous studies, including those by the International Panel on Climate Change (IPCC), a United Nations-appointed body of experts, may have miscalculated their significance—and according to Adrian Williams of Cranfield University, in Britain, even the IPCC's approach suggests that the global-warming potential of most of Britain's annual crops is dominated by N_2O emissions.

The broader issue, therefore, is the extent to which humanity has hijacked the "nitrogen cycle", as the passage of that gas into and out of the atmosphere is known, for its own use. Alan Townsend, of the University of Colorado, Boulder, is one of those trying to calculate the extent of this change. What seems

certain is that the nitrogen cycle is changing faster and more profoundly than the carbon cycle, which has attracted much more attention.

This week Dr Townsend, and others involved in something called the International Nitrogen Initiative, are meeting in Paris to try to organise an international assessment of what is going on. This would do for nitrogen what the IPCC has done for carbon. To some, worries about nitrogen will doubtless seem to be no more than the latest environmental bandwagon. But the case of biofuels shows that without proper consideration of all greenhouse gases, not just CO2, it is too easy to rush headlong into expensive methods of mitigation that actually make things worse.

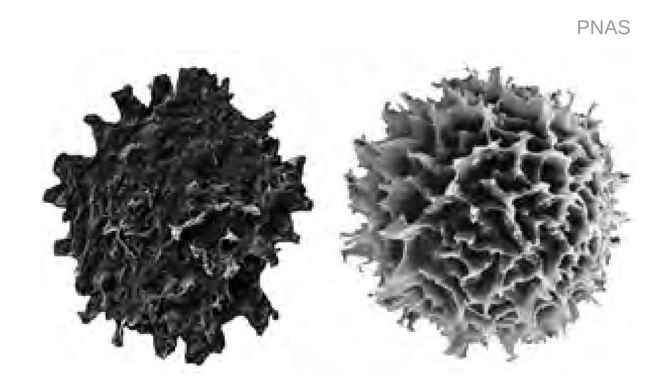
Pre-Cambrian life

The dawn of the animals

Apr 8th 2009
From The Economist print edition

Which came first, the eggs or the algae?

PNAS



Though the fossiliferous explosion known as the Cambrian period is often thought of as the beginning of animal life, animals actually appeared for the first time during a geological twilight called the Ediacaran, 635m-542m years ago, between the end of a great ice age and the arrival of all those well-preserved Cambrian fossils. The object on the left, less than a millimetre across in reality, is an example of what were once thought to be the encysted forms of Ediacaran algae. However, its similarity to the object on the right, which is the egg of a modern species of crustacean, has led Phoebe Cohen of Harvard University and her colleagues to suggest in the *Proceedings of the National Academy of Sciences* that it, too, is the egg of an animal. Which animal, exactly, is not clear. No crustaceans are known from the Ediacaran. Common adult Ediacarans included jellyfish-like critters and things that resemble flattened grapefruit segments. How these are related to the rest of animal-kind is not known. But somewhere among them must lurk one of humanity's ancient ancestors.

Neurology

Wired

Apr 8th 2009
From The Economist print edition

Connectomics aims to map the atlas of the brain

WHEN last year's Nobel prize for chemistry was awarded to the discoverers of green fluorescent protein, the pages of newspapers (this one included) lit up with photographs of "brainbows". Jeff Lichtman, the neurobiologist who created those pictures, had used the discovery to invent a way to tag nerve cells with genes whose products fluoresce green, red and blue. By mixing these three hues in different proportions he was able to "paint" the cells in question in more than a hundred different colours.

Besides looking pretty, the resulting pictures allow the numerous protrusions of individual nerve cells that connect those cells together to be followed through the labyrinth that constitutes the average brain. Dr Lichtman hopes to use his brainbow mice to answer questions about neurological development, such as why the nerve cells of babies have far more connections than do those of adults. That could shed light on what happens when the wiring gets connected wrongly and, as it were, blows a neurological fuse. Such faulty wiring—connectopathies, in the jargon—may be the underlying explanation of such disorders as autism and schizophrenia.

Dr Lichtman's work is the most famous example of the emerging science of connectomics. But it is not the only one. For, just as every organism has a genome (the complete set of its genes, as encoded in its DNA), every organism with a nervous system has a connectome (the complete set of its nerve cells and the connections between them). In practice, of course, a connectome will change over the course of time as new connections form and old ones die. But that does not stop people like Dr Lichtman dreaming of a Human Connectome Project inspired by the success of the Human Genome Project.

Weaving the fabric of reality

Connectomics actually started before the word existed. In 1972 Sydney Brenner, a biologist then at Cambridge University, decided to work out the connections of every cell in the nervous system of a small nematode worm called *C. elegans*. He picked this animal because its body has a mere 959 cells, of which 302 are nerve cells. It is also a hermaphrodite, fertilising itself to produce clones. That means individual worms are more or less identical.

Dr Brenner and his team embedded their worms in blocks of plastic, sliced the blocks thinly and then stained each slice so its features would show up in an electron microscope. The resulting pictures let the path taken by each nerve cell to be traced through the worm's body. They also revealed the connections between cells. Over the course of 14 painstaking years the team managed to map the complete nervous system of *C. elegans*, work for which Dr Brenner, too, won a Nobel prize.

The scale of that work, though, hardly compares with today's quests to map the brains of mice and fruit flies. The cerebral cortex—the part of a mammal's brain that thinks—is composed of 2mm-long units called cortical columns. Winfried Denk of the Max Planck Institute for Medical Research in Heidelberg, Germany, estimates that it would take a graduate student (the workhorse of all academic laboratories) about 130,000 years to reconstruct the circuitry of such a column. But efforts to automate the process are gaining ground.

Dr Brenner's method used what is known as a transmission electron microscope. In this the electrons that form the image pass through the sample, so the individual slices have to be prepared and examined. Dr Denk is speeding matters up by using a scanning electron microscope instead. This takes pictures of the surface of an object. Dr Denk (or, rather, his graduate students) are thus able to load the machine with a chunk of plasticised brain and a slicer. Once the microscope has taken a picture of the exposed surface of the chunk, the slicer peels away a layer 25 billionths of a metre thick, revealing a new surface for the next shot. The slice itself can be discarded, so the process is much faster than using a transmission microscope.

Researchers have also devised sneaky ways to tag parts of the brain that are of special interest, so that they can be followed more easily from slice to slice. Dr Denk, for example, tracks the myriad branches of a single nerve cell using an enzyme from horseradish. This gets stuck on the cell's surface and then reacts with a stain that is added to the sample.

It is also possible to trace neural pathways from cell to cell. Ed Callaway at the Salk Institute in La Jolla, California, does so using rabies viruses. Rabies hops between nerve cells as it races to the brain, which is why even an infected bite on the ankle will eventually drive someone mad. That ability to leap the gap between cells means the connections branching from a single cell can be mapped.

Even when the images are in, however, making a map from them is another matter. Dr Brenner's team traced each cell by eye—matching shapes through hundreds of cross-sections. Sebastian Seung, a computational neuroscientist at the Massachusetts Institute of Technology, is working on a program that will automate this process, too. It will allow a computer to learn how to match cells from one slice to another by trial and error, as a human would, but with the infinite patience that humans lack.

The result of all this effort, it is hoped, will be precise circuit-diagrams of brains. The first brains to be mapped will probably have belonged to mice. Besides being cheap and disposable, a mouse brain weighs half a gram and packs a mere 16m neurons. Human brains (1.4kg and 100 billion neurons) will come later, when all the wrinkles have been ironed out in rodents, and proper methods devised to analyse the results. But come they will. And when they do, the most complicated object in the known universe will begin to give up the secrets of how it really works.

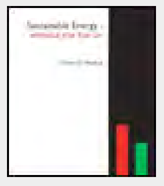
Energy and climate change

Meltdown

Apr 8th 2009
From The Economist print edition

What to do?

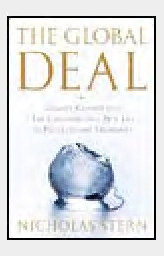
Sustainable Energy—Without the Hot Air
By David MacKay



UIT Cambridge; 384 pages; $49.95 and £45

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Amazon.com
Amazon.co.uk

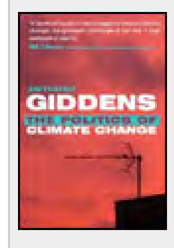
The Global Deal: Climate Change and the Creation of a New Era of Progress and Prosperity
By Nicholas Stern



Public Affairs; 256 pages; $26.95. Published in Britain as "Blueprint for a Safer Planet"; The Bodley Head; £16.99

Buy it at
Amazon.com
Amazon.co.uk

The Politics of Climate Change
By Anthony Giddens



Polity Press; 264 pages;

Alamy

£50. To be published in America by Polity next month

Buy it at
Amazon.com
Amazon.co.uk

EVERYONE is green now, at least in theory. A warming planet has panicked the world into looking for alternatives to fossil fuels even as billions of people begin to achieve the sort of luxurious Western lifestyle that will, without reform, cook the Earth. If the science of climate change is fast-moving, the politics are even faster, with a huge array of treaties, promises, pledges and targets giving the appearance of lots of action—but with little actually being achieved. Three books take very different approaches to sizing up the problem.

Anthony Giddens, a professor at the London School of Economics, is a sociologist most famous for developing the "Third Way", the centre-leftish political philosophy espoused by Tony Blair and Bill Clinton. His book argues that the scale of the climate-change problem and the difficulty of reconciling greenery with development demands a new political approach.

The result is a wide-ranging book that covers everything from renewable energy to carbon trading and the practicalities of adapting to a world with deeper seas and fiercer weather. Lord Giddens (he was ennobled in 2004) gives much good advice. He chastises eco-warriors for their relentlessly downbeat message, arguing that people are more likely to change their habits if offered a happy future to look forward to rather than a bleak one to avoid. He rejects the hair-shirt ideals of many greens as unlikely ever to appeal to most voters. And he argues against the idea that climate change is too big a problem for a democratic system to deal with.

But the price of breadth is a lack of depth that may leave curious readers frustrated. Part of the problem is a tendency to affectation. The rather pedestrian observation that distant, abstract crises tend not to change people's behaviour even if the consequences are extremely unpleasant is christened "Giddens' paradox", and the opening chapter mentions every fashionable meme from the internet and social networks to Barack Obama's "yes we can" campaign slogan. Overall, there is little in the book that is truly original. But it is conveniently packaged and Lord Giddens's reputation among policy wonks (as well as an endorsement from Mr Clinton) will propel it onto shelves in high places.

Those who crave something less woolly will prefer Sir Nicholas Stern's book. Sir Nicholas is a former chief economist at the World Bank and author of an influential study of climate-change economics for the British government. His book addresses the argument in cost-benefit terms, and concludes that spending 1-2% of global output to avoid a significant temperature rise is a bargain worth taking—a similar conclusion to that in his original 2006 study. But the book is written for a wider audience than the official report, and incorporates some more recent (and worrying) findings from climate science.

Least woolly of all is David MacKay's book (which can be bought or downloaded free from www.withouthotair.com). Irritated by the waffle that often surrounds discussions of energy and climate change, Mr MacKay, a physicist at Cambridge University, has chosen to illustrate the challenge of breaking our fossil-fuel addiction armed only with the laws of physics, reams of publicly available information and the back of an envelope.

Mr MacKay favours no particular technology. He is concerned only that proposals to decarbonise the economy should add up. But his refreshingly hard-headed approach (confined to Britain, but easily adapted to other countries) comes to some sobering conclusions. Meeting Britain's energy needs from onshore wind power would require covering literally the entire country in turbines, even assuming that the

wind was guaranteed to blow. If only 10% of Britain were covered then wind could provide roughly a tenth of total demand. Switching every piece of agricultural land to biofuel production would provide just 12% of the requisite juice.

It is a similar story for offshore wind, tidal and wave energy, all of which make the claims of green advocates that Britain has a “huge” renewable resource look somewhat hollow, especially since the book ignores questions of costs and focuses purely on physical limits. To make a dent in fossil-fuel consumption without using nuclear power, renewable-energy facilities will have to be “country-sized”, with offshore wind farms bigger than Wales and huge solar-power arrays in sunny deserts piping power to cloudier nations.

Although Mr MacKay’s conclusions are fascinating, much of his book’s appeal lies in its methods. Ballpark calculations are a powerful way of getting to grips with a problem. The book is a tour de force, showing, for example, how the potential contribution of biofuels can be approximated from just three numbers: the intensity of sunlight, the efficiency with which plants turn that sunlight into stored energy and the available land area in Britain. As a work of popular science it is exemplary: the focus may be the numbers, but most of the mathematical legwork is confined to the appendices and the accompanying commentary is amusing and witty, as well as informed.

With global climate-change and energy policy consisting mostly of feel-good rhetoric rather than action, Mr MacKay’s reminder that the natural world does not care for political expediency—summed up in Richard Feynman’s famous observation that “nature cannot be fooled”—should be engraved on environment-ministry doors the world over. For anyone seeking a deeper understanding of the real problems involved, “Sustainable Energy—Without the Hot Air” is the place to start.

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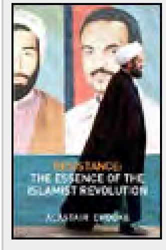
Islam and the West

What to think?

Apr 8th 2009
From The Economist print edition

ALASTAIR CROOKE cuts a romantic figure. A thoughtful former agent of Britain's foreign-intelligence service, he has worked assiduously since retiring from MI6 to explain to a suspicious West the violent Islamist movements of the Middle East, such as Hamas in the Palestinian territories and Hizbullah in Lebanon. His "Conflicts Forum", based in Beirut, aims to "engage and listen to Islamists, while challenging Western misconceptions". This is useful work. The West has plainly failed to understand such movements and the reasons for their popularity. Unfortunately, his book is a missed opportunity.

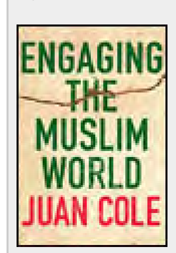
Resistance: The Essence of the Islamist Revolution
By Alastair Crooke



Pluto Press; 288 pages; $28.95 and £17.99

Buy it at
Amazon.com
Amazon.co.uk

Engaging the Muslim World
By Juan Cole



Palgrave Macmillan; 288 pages; $26.95. To be published in Britain by Palgrave in May

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Amazon.co.uk

Mr Crooke says at the outset that he intends to convey the excitement that political Islam arouses in him and to correct the usual Western caricatures. But because he chooses deliberately to eschew balance (he says "balance" is used too often to "control and select" discourse), his own account is disturbingly selective. When describing Iran's Islamic revolution or its protégés in Hizbullah and Hamas, he forsakes his critical faculties, reserving all his scepticism for the secular values of the West. The "grand narrative" of Western progress has collapsed, Mr Crooke declares with satisfaction, whereas the narrative of Islam is "revived and in the ascendant".

This book argues that what is at stake between Islam and the West is a fundamental clash of values: nothing less than a different way of thinking about human beings. The West, Mr Crooke avers, organises society around the largely amoral appetites and choices of the individual. Islam sees the human as "a multidimensional creature", larger than the sum of his own desires and appetites, informed by "innate moral values", and responsible to the community. And whereas the West imposes on others, "by force if necessary", a soulless philosophy of free markets and personal choice, the force used by Islamist movements is to be understood as an act of spiritual, cultural and social resistance.

A 1960s campus radicalism wafts through the book. Mr Crooke cites the anti-colonial writings of Frantz Fanon with enthusiasm, whereas those of free-market advocates are mocked and dismissed. Far from being closed societies resisting modernity, he says, Iran and its protégés are heeding Ayatollah Khomeini's call to replace the "colonised brain" with the "independent brain". The "resistance" in Lebanon, Iraq and Afghanistan has "shown Muslims that there is an alternative": armed defiance not only against "Western military hegemony" but also against the West's "political stature and narrative".

How much more persuasive this book would have been if Mr Crooke had curbed his enthusiasm, or been just a bit franker about the blemishes on the movements he admires. Instead he glosses over Hamas's suicide attacks on civilians and its notoriously anti-Semitic founding charter. The final straw for this reviewer was a passage in which Mr Crooke quotes approvingly the head of Hizbullah's television station prating about the need for "resistance media" to show "objectivity" and "respect for its audience". Incredibly, Mr Crooke fails to mention that this hate-mongering station routinely pumps out vicious anti-Semitic propaganda, including a drama series that portrays hook-nosed orthodox Jews murdering gentile children in order to use their blood for Passover bread.

Juan Cole, an American academic and author of a sparky contrarian blog called "Informed Comment", provides a far less pretentious, more balanced and more effective antidote to oversimplified Western views of Islam. He is a waspish critic of American policy towards the Muslim world under George Bush, but manages to prick Western misconceptions without falling into Mr Crooke's error of taking extremist

movements entirely at their own estimation. Like Mr Crooke, Mr Cole is all for open dialogue between America and the Muslim countries and movements Mr Bush treated as implacable enemies. Since that is very much the approach of America's new president, the contrarian blogger may soon have to cope with an unsettling new life as part of the new orthodoxy.

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Ellen Johnson Sirleaf

An African first

Apr 8th 2009
From The Economist print edition

This Child Will Be Great: Memoir of a Remarkable Life by Africa's First Woman President
By Ellen Johnson Sirleaf



HarperCollins; 368 pages; $26.99. To be published in Britain by Harper in May

Buy it at
Amazon.com
Amazon.co.uk

MA ELLEN, as she is known in her homeland, Liberia, was inaugurated as Africa's first female president on Monday January 16th 2006. Eight African heads of state flew in for the ceremony, as well as Laura Bush and Condoleezza Rice.

The odds against Ellen Johnson Sirleaf ever leading her country were huge. Her enemies associated her with the Americo-Liberians, descendants of the freed slaves who founded the small west African state in 1847. This elite ruled the country until 1980, when a group of soldiers killed the president and 13 ministers and party officials. The leader of the coup, Master Sergeant Samuel Doe, summoned Mrs Johnson Sirleaf to the executive mansion. Fearing for her life, she had no alternative but to go. She was the finance minister and Doe wanted her particularly to explain the country's budget to the soldiers.

Mrs Johnson Sirleaf inherited her light skin colour from her maternal grandfather, a German trader. But she maintains her family was impeccably native. Married at 17, she had four sons, then went with her family to America, where she studied business at Madison Business College, Wisconsin, and worked in a chemist. On her return, she got a job at the Treasury. Her husband was abusive and she divorced him. As she rose in government, she became increasingly critical of the ruling class and its reluctance to share power, which may have saved her life when the government was overthrown.

Doe constantly sought Mrs Johnson Sirleaf's advice and appointed her president of the Liberian Bank for Development and Investment. But when she began speaking out against some of the people who surrounded him she was imprisoned and threatened with rape and death. Freed, she left the country, working first in America, for Citibank as well as the World Bank and the United Nations, and then as a financial consultant in nearby Côte d'Ivoire. But she was always involved with events at home.

After Doe's assassination she stood unsuccessfully in the 1997 election against Charles Taylor, a charismatic warlord with a well-organised campaign. By 2005 Mr Taylor was exiled in Nigeria and the popular candidate in the presidential election was an international football star named George Weah. This time Mrs Johnson Sirleaf swept tirelessly through the country, speaking directly to the masses. She says that the women of Liberia helped to get out the vote. "Ellen", they said, "knows book." She trailed Mr Weah in the first round. But her persistence—and Mr Weah's complacency—gave her a majority in the run-off.

Reuters



Ma Ellen knows book

At the end of her book, President Johnson Sirleaf lists some of the problems her new government faced. A wrecked infrastructure. Scarcely any electricity or water. Schools without books, equipment and teachers. Hospitals with no doctors, nurses or supplies. Half of the citizens of Liberia struggling to exist on $0.50 a day. Now, three years into her presidency, the capital, Monrovia, has streetlights in the centre, a first symbolic promise fulfilled. The UN mission that provides security throughout the country is beginning to withdraw. But the president admitted in an end-of-year press conference that times are still hard, that the numbers of women dying in childbirth increased in 2008 and that corruption remains a big problem. The odds are still stacked against her.

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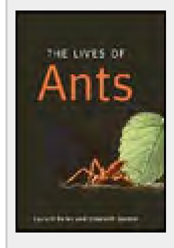
Lessons from ants

Wisdom of crowds

Apr 8th 2009
From The Economist print edition

KING SOLOMON saw ants as models of wisdom; the Dogon people of west Africa believe they were the mothers of the first humans; they attained movie-star status in the 1998 films “Antz” and “A Bug’s Life”. In this scientific yet accessible book, Laurent Keller, a professor of ecology at the University of Lausanne, and his co-writer, Elisabeth Gordon, shed light on how these extraordinarily complex creatures operate and what we can learn from them.

The Lives of Ants
By Laurent Keller and Elisabeth Gordon. Translated by James Grieve



Oxford University Press; 256 pages; $27.95 and £14.99

Buy it at
Amazon.com
Amazon.co.uk

Over the past 150m years ants have evolved into around 13,000 species: 772 in America, 50 in Britain and 1,250 in Australia. Myrmecologists (ant specialists) are certain that thousands more are yet to be discovered. From tiny leptanilline ants that look like a dusting of pepper to Australia’s 5cm (2-inch) bulldog ants, the weight of the *Formicidae* family is equal to that of the world’s population of humans and accounts for 10% of the biomass of all the creatures on the planet. The global ant population is estimated at 10,000 trillion, greatly outnumbering any other sort of animal. And the density of ant colonies can be astronomical: a “super-colony” of redwood ants discovered in the 1970s on the coast of the Japanese island of Hokkaido had more than 300m worker ants, over 1m queens and covered an area of 2.5 square kilometres.

Mr Keller and Ms Gordon explain that the success of ants as a species lies in their sophisticated, strictly hierarchical social organisations. Ant colonies are founded on two main “castes” of ant: queens, whose sole function is reproduction, and their industrious, sterile, worker daughters. (The only use for males is to inseminate the queen; afterwards they are either driven out of the nest or killed.)

Colonies operate through organised co-operation and task-sharing. Ants work together to capture prey that is bigger than they are; they can call up extra workers when an abundant food source is discovered; they can defend a colony by repelling invaders. Weaver ants use silk squeezed from ant larvae to “glue” leaves together for nest building. Nursemaid ants look after eggs, larvae and pupae, moving them from place to place each day depending on the temperature. Ants of Switzerland’s Jura region search out antibacterial spruce resin and distribute it within their nests to reduce the number of pathogens.

The secret behind such organised societies is communication through the use of around 20 pheromones, emitted by ants’ secretory organs. These chemical signals are used, among other things, by queens to attract males; for marking territory; to alert nest-mates to danger; to lead other ants to a source of food; and to tell them which ants are dying and need removing from the colony.

This pheromone-driven behaviour means that although single ants are not clever, collectively they are capable of complex tasks. Such “swarm intelligence” is of huge interest to scientists and has already led to practical applications. Unilever, for instance, has used a computer program based on swarm intelligence to organise movements between storage tanks, mixers and packing lines in one of its factories.

The Lives of Ants.
By Laurent Keller and Elisabeth Gordon. Translated by James Grieve.
Oxford University Press; 256 pages; $27.95 and £14.99

Dorothy Wordsworth

Woman on the edge

Apr 8th 2009
From The Economist print edition

The Ballad of Dorothy Wordsworth: A Life
By Frances Wilson



Farrar, Straus and Giroux; 336 pages; $30. Faber and Faber; £18.99

Buy it at
Amazon.com
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WILLIAM WORDSWORTH'S sister, Dorothy, is usually thought of as sentimental and stodgy, a lover of daffodils and the healthy outdoors but ultimately rather dull. This subtle and intriguing new study by Frances Wilson, which came out in Britain a year ago and is just being published in America, is changing that view. Not only does it establish Dorothy as a fascinating figure in her own right, it also pulls off the hardest trick of literary biography: it brings the reader into intimate proximity with the subject yet reminds us that there are aspects of any past life which will remain forever mysterious.

The book opens dramatically on the day of Wordsworth's marriage to Mary Hutchinson in 1802. Dorothy has worn the couple's wedding ring all night. When her brother enters her room in the morning, she hands it to him, only to have him briefly replace it on her finger with a blessing before leaving for the church. Dorothy is too distraught to attend the ceremony herself. As Ms Wilson puts it, William's wedding was Dorothy's funeral.

How to interpret the intense bond between Dorothy and her poet brother, which was played out in the suffocatingly tiny rooms of their home, Dove Cottage, and against the surrounding landscape of the Lake District, which inspired not only his poems but her enigmatic, evocative journals? As Ms Wilson points out, the fact that they were separated in childhood and came together again as young adults provided the psychological preconditions for the rapturous sense of mutual identification which they experienced.

Whether their intimacy was sexual, as was Lord Byron's with his half-sister Augusta, is not something that can ever be known, though it was scurrilously gossiped about even at the time. In her journal Dorothy says she "petted" her "darling" William "on the carpet", sat with his head on her shoulder, and came into his room at night to help him sleep. Ms Wilson thinks it unlikely that their relationship was incestuous in the full and literal sense. She is more interested in the emotional texture (which was indeed erotic) of their exclusive brother-sister love, from which William escaped into marriage, breaking Dorothy's heart.

The intensity of the Wordsworths' sibling connection has been noted before, but Ms Wilson places it suggestively within the context of its time. Brother-sister love is a common Romantic preoccupation. It comes up, for example, in Percy Bysshe Shelley's work and in the love that binds Cathy and Heathcliff in Emily Brontë's "Wuthering Heights". Dorothy's fascination with nature is also presented through a Romantic lens, which makes it far wilder and more bohemian than it might appear to a modern eye. Against this background she comes over as a dangerous, unstable, even transgressive figure—a woman on the edge in many senses.

Ms Wilson is an enlightened literary critic and her close readings of Dorothy's celebrated journals, with their minute observations of the natural world, are a joy to follow. Dorothy's writing is not introspective, but Ms Wilson cleverly reveals it to be far more exposing of its author's complex, sometimes tortured personality than it appears on the surface. What the journals do not say is often as significant as what they do, and Ms Wilson reads perceptively between the lines, speculating when necessary but doing so with a clearness of thought which makes her approach utterly convincing.

The Ballad of Dorothy Wordsworth: A Life.
By Frances Wilson.
Farrar, Straus and Giroux; 336 pages; $30. Faber and Faber; £18.99

The baroque

High notes and curlicues

Apr 8th 2009
From The Economist print edition

A magnificent style is given its due

BAROQUE was the first important international style. Between 1620 and 1800, art and music, architecture and theatre were infused with an unprecedented spirit of opulence, drama and sensuality. The baroque spread, first through Europe and then on to Goa in India, Indonesia and the Philippines as well as Latin America, shaping everything from public spaces to the decoration of churches and palaces. How much it came to advertise and advance the ambitions of the rich and powerful, both secular and religious, can be seen in an exhibition at London's Victoria and Albert Museum until July 19th.

And what a feast it is. "Baroque: Style in the Age of Magnificence" begins with a captivating bejewelled camel (pictured below) with "blackamoor" attendants. This quintessentially baroque piece, which combines gold, enamel and precious stones, is from the Green Vault treasury in Dresden. It spotlights the gem that was later to give the style its name. The camel's body, neck and head are made of irregularly shaped baroque pearls. Such treasures were valued as natural wonders by people who were eager to learn about foreign lands. By the late 18th century taste had changed; baroque pearls were disdained as imperfect. This is when critics gave the name to the exuberant style that, by then, was also out of fashion.

The baroque rose and fell at different times from country to country, and the exhibition is arranged thematically rather than chronologically. To help familiarise visitors, the early part of the show has a wide variety of works, including paintings by Peter Paul Rubens, a carved wooden sledge and a large *pietra dura* cabinet from the Gobelins workshops.

The focus then is on three areas: theatre, the church and palaces. Each one is illustrated with pieces that combine pageantry with emotional appeal. Like the baroque itself, the display mixes media, with films and music throughout.

Victoria and Albert Museum

Festivals, attended by aristocrats and the public, were a feature of the baroque courts. Opera blossomed, ballet was popular and new theatres were built all over Europe. The castle theatre at Cesky Krumlov in Bohemia still has its baroque sets, props, costumes and even its stage machinery. The show includes a film of a current performance in which they are being used.

The exhibition's most endearing object, a child's carriage in the shape of a pumpkin that would have been pulled along by pet sheep, introduces the section on palaces. An enfilade of rooms, each more private than the last, takes the viewer through to the state bedroom. Silver furniture from Knole, an English country house, stands near a Swedish bed with rich fabric that was possibly a gift from Louis XIV.

The section on churches is where the show reaches its peak of intensity and splendour. An entire carved and painted wooden font house, used in baptisms, has come from Norway. A silver-gilt chandelier weighing 80 kilos is a Swedish loan. Among the reliquaries on display is a stone carving of the baby Jesus lying on a rock crystal cradle. (A bit of the original manger straw is claimed to be inside.) A large Mexican altar holds the statue of a sorrowful Neapolitan Madonna. A glittering display of silver-gilt sacramental objects has come from King John V's chapel at São Roque in Lisbon, the entire chapel made in Rome, blessed by the pope and then shipped to Portugal. Among works by Gianlorenzo Bernini is the beautiful erotic terracotta of the "Blessed Ludovica Albertoni".

The catalogue includes a lucid and illuminating essay on church practice and the use of objects such as these by one of the curators, Nigel Llewellyn. Elsewhere, however, an essay by the other curator, Michael Snodin, contains a fundamental error. Writing about the “Throne of the Mughal”, a tableau with dozens of enamelled and bejewelled figures, he states that the ruler is an “imaginary Asian”. Yet it is well known that the figure is the great Mughal leader Aurangzeb, who ruled India for much of the 17th century. This work, depicting a celebration of his birthday, was made for a German contemporary, Augustus the Strong, by Dresden’s greatest goldsmith, J.M. Dinglinger. It has pride of place in Dresden’s Green Vault.



The show ends on a baroque high note. Handel’s music envelops visitors as they leave, their last sight a display on film of the elaborate baroque fireworks that are still so popular in Germany today.

Helen Levitt

Apr 8th 2009
From The Economist print edition

Helen Levitt, photographer of New York, died on March 29th, aged 95

Estate of Helen Levitt



OVER the course of her long life, many people wanted to ask Helen Levitt about her photographs. She always refused, at least as far as public pronouncements were concerned. "I'm inarticulate," she would say. "I express myself with images." Or, "If I could say that, I wouldn't have to take pictures."

The result was that few people knew her, outside professional photographers and her poker circle. And that was fine with her. She lived defiantly alone except for Binky, her tabby cat. The only photograph released of her after her death showed a not-unpretty face, crop-haired and heavily lipsticked, about to scowl. She was in her 50s then, and looked as though the camera had outraged her.

More determined interviewers tracked her to the fourth floor of the walk-up brownstone on East 13th Street where she lived for most of her life. The stairs didn't deter her, despite her sciatica and a strange, lifelong inner-ear disorder that made her feel "wobbly" all the time. But in her last decade she found her old Leica was getting too heavy to carry about, and switched to a Contax automatic. It was a poignant moment. She had been inspired to use a 35mm Leica by Henri Cartier-Bresson, no less, after trailing him one day in 1935 as he took photographs round the wharves of Brooklyn. He became a great admirer of her work. She thought any comparison of herself with him was ridiculous.

Her pictures were mostly of Spanish Harlem and the Lower East Side. She shot them in black and white, as silver gelatin prints, in the 1930s and 1940s and in colour dye-transfer prints in the 1960s and 1970s. In between, she got into movie-making for a while. Her theme was the same, the streets of New York. Apart from a trip in 1941 to Mexico City, she never found a better subject in her life.

The grittier parts were her particular joy. Her world was run-down streets, rubble-filled building sites, warehouses and litter-strewn front steps. This was urban photography with a vengeance: small scraps of sky, no trees. When she was going with Walker Evans in 1938, borrowing his camera as well ("of course") as sleeping with him, he used to be afraid of going as far uptown as she did. Some of her young male subjects, lounging around in their zoot suits and fedoras, had an unmistakable air of menace. But mostly she brought back images of gossiping women and her favourite, scrambling children. A right-angle viewfinder allowed her to take the picture without them knowing, even, as Evans showed her, when riding right beside them in the subway.

Here and there

Her birthplace was in Brooklyn, where her father was in the wholesale knitwear business. She aspired to something more artistic, but found she couldn't draw. For a time she trained in ballet, which taught her to appreciate the musculature of posing bodies and the spontaneous grace of her child subjects. After dropping out of high school she went to work in the darkroom of Florian Mitchell's commercial portrait-photography studio on $6 a week. There she was hooked.

A good image, she thought, was just lucky. But her New Yorker's instinct seemed to tell her exactly where to wait for one. A broken-down car would soon attract people to lie under it, peer under the hood or try to push it. A cane chair, put out on the sidewalk, would draw an elderly man with cigar and newspaper, or a plump young woman in a housecoat wilting in the heat. With luck dogs would come out too, rough-haired mutts or poodles with fresh-shampooed coats. The open back of a truck would reveal delivery men moping on piles of sacks, or dozing among pink and blue bales of cloth. Any abandoned thing—a tea-chest, a mirror frame, the pillared entry of an empty building—would soon sport knots of children diving in, climbing up, fighting and contorting their small bodies in every kind of way.

Her pictures did not have names. "New York", and the year, was the label on most of them. They did not need explaining; they were "just what you see". Many had a backdrop of posters, graffiti or billboards, which gave a commentary of sorts. "Special Spaghetti 25 cents." "Post No Bills." "Nuts roasted daily." "Buttons and Notions, One Flight Up." "Bill Jones Mother is a Hore." Her earliest project with her first, secondhand camera was to photograph children's chalk drawings on the pavements. She never tried to speculate on them. What mattered was the patterns they made.

In the 1960s, when she got two Guggenheim grants, she began to shoot the streets in colour. The tricky developing ultimately frustrated her, and the streets, too, had changed. The children had retreated indoors to watch television. But where she had found grace and texture in black and white, colour now provided beauty in correspondences. The multicoloured balls in bubble-gum machines could be picked up in a girl's dress, or the red of a stiletto shoe matched with the frame of a shop window. Her broken-down cars were now lurid beasts against the stucco walls. And out of her peeling, greenish doorways could come women in furs, or pink hair-curlers, or orange-striped socks.

She did not rate her own work highly. Though her original prints eventually sold for tens of thousands of dollars, she let them pile up in her apartment in boxes labelled "Nothing good" or "Here and there". Her hopes when she started were for photographs that would make a socialist statement of some sort, but she abandoned that on Cartier-Bresson's advice. A "nice picture", as she reluctantly admitted some of hers were, was a work of art that had value in itself, as well as a celebration of the random, teeming work of art that is the city of New York.

Overview

Apr 8th 2009
From The Economist print edition

The GDP of the 15 countries in the **euro zone** fell by 1.5% in the final quarter of 2008 compared with a year earlier, according to the European Union's statistics office. The corresponding fall for all 27 countries in the EU was 1.4%. But thanks to the growth in the first half of the year, GDP still grew in 2008 as a whole, by 0.8% for the euro area and 0.9% for the entire EU.

Britain's industrial production was 5.8% lower in the three months to February 2009 than it had been in the previous three months, and 12.5% lower than a year earlier. This was the biggest annual drop in industrial output since comparable records began 41 years ago.

Taiwan's exports continued their downward plunge. In March they were 35.7% lower than a year earlier. An even sharper decline in imports, which went down by 49.5%, caused the trade surplus to widen to $3.4 billion from $1.7 billion in February.

The Reserve Bank of **Australia** cut the target cash rate, its main monetary-policy instrument, by 0.25% to 3% on April 8th. This was the bank's sixth interest-rate cut since September last year.

Higher import prices, largely the product of a weaker rouble, pushed **Russia's** annual inflation rate to 14% in March. Inflation in the **Philippines** fell to 6.4% in March from 7.3% in February.

Consumer credit in **America** fell by $7.5 billion, or 0.3%, in February.



Output, prices and jobs

Apr 8th 2009
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product latest	Gross domestic product qtr*	Gross domestic product 2009†	Gross domestic product 2010†	Industrial production latest	Consumer prices latest	Consumer prices year ago	Consumer prices 2009†	Unemployment rate‡, %
United States	−0.8 Q4	−6.3	−2.7	+1.4	−11.8 Feb	+0.2 Feb	+4.0	−0.8	8.5 Mar
Japan	−4.3 Q4	−12.1	−6.5	+0.4	−38.4 Feb	−0.1 Feb	+1.0	−1.0	4.4 Feb
China	+6.8 Q4	na	+6.0	+7.0	+3.8 Jan-Feb	−1.6 Feb	+8.7	−0.2	9.0 2008
Britain	−2.0 Q4	−5.9	−3.5	+0.3	−12.5 Feb	+3.2 Feb§	+2.5	+1.2	6.5 Jan††
Canada	−0.7 Q4	−3.4	−1.9	+1.6	−7.8 Jan	+1.4 Feb	+1.8	+0.6	7.7 Feb
Euro area	−1.5 Q4	−6.2	−3.4	+0.2	−17.3 Jan	+0.6 Mar	+3.6	+0.4	8.5 Feb
Austria	+0.5 Q4	−0.8	−2.0	+0.3	−6.5 Jan	+1.3 Feb	+3.2	+0.6	4.5 Feb
Belgium	−0.8 Q4	−6.5	−2.7	+0.3	−17.9 Jan	+0.6 Mar	+4.4	+0.7	11.2 Feb‡‡
France	−1.1 Q4	−4.4	−2.7	+0.3	−13.8 Jan	+0.9 Feb	+2.8	+0.3	8.6 Feb
Germany	−1.7 Q4	−8.2	−4.3	+0.3	−19.2 Jan	+0.5 Mar	+3.1	+0.3	8.1 Mar
Greece	+2.4 Q4	+1.2	−3.4	−0.4	−10.2 Jan	+1.6 Feb	+4.4	+0.9	7.8 Dec
Italy	−2.9 Q4	−7.5	−3.7	+0.1	−16.7 Jan	+1.2 Mar	+3.3	+0.8	6.9 Q4
Netherlands	−0.6 Q4	−3.8	−2.7	+0.5	−13.3 Dec	+2.0 Feb	+2.2	+0.9	4.1 Feb††
Spain	−0.7 Q4	−3.8	−3.1	−0.5	−23.9 Feb	+0.7 Feb	+4.4	+0.3	15.5 Feb
Czech Republic	+0.7 Q4	−3.7	−2.0	+1.6	−23.3 Jan	+2.0 Feb	+7.5	+1.8	7.4 Feb
Denmark	−3.7 Q4	−7.3	−3.1	+0.5	−11.3 Feb†††	+1.9 Feb	+3.1	+1.1	2.5 Feb
Hungary	+2.0 Q4	−3.9	−3.0	+0.4	−25.4 Feb	+3.0 Feb	+6.9	+2.9	9.1 Feb††
Norway	+0.8 Q4	+5.6	−1.2	+0.5	−5.1 Feb	+2.5 Feb	+3.7	+1.7	3.1 Jan***
Poland	+2.9 Q4	na	+0.7	+2.2	−14.3 Feb	+3.3 Feb	+4.2	+3.0	10.9 Feb‡‡
Russia	+1.2 Q4	na	−3.0	+2.0	−13.2 Feb	+14.0 Mar	+13.3	+13.5	8.5 Feb‡‡
Sweden	−4.9 Q4	−9.3	−3.6	+0.7	−22.9 Jan	+0.9 Feb	+3.1	−0.1	8.0 Feb††
Switzerland	−0.1 Q4	−1.2	−2.3	+0.1	−6.0 Q4	−0.4 Mar	+2.6	−0.2	3.1 Feb
Turkey	−6.2 Q4	na	−2.0	+1.5	−21.3 Jan	+7.9 Mar	+9.2	+7.8	12.3 Q4‡‡
Australia	+0.3 Q4	−2.1	−0.8	+1.6	+3.8 Q3	+3.7 Q4	+3.0	+2.1	5.2 Feb
Hong Kong	−2.5 Q4	−7.8	−5.9	−0.2	−10.3 Q4	+0.8 Feb	+6.3	+1.1	5.0 Feb††
India	+5.3 Q4	na	+5.0	+6.4	−0.5 Jan	+9.6 Feb	+5.5	+5.4	6.8 2008
Indonesia	+5.2 Q4	na	−1.3	+0.6	−6.1 Jan	+7.9 Mar	+6.3	+3.9	8.4 Aug
Malaysia	+0.1 Q4	na	−0.3	+2.8	−20.2 Jan†††	+3.7 Feb	+2.7	+1.1	3.0 Q4
Pakistan	+5.8 2008**	na	+1.2	+3.2	−8.9 Jan	+21.1 Feb	+11.3	+10.1	5.6 2007
Singapore	−4.2 Q4	−16.4	−7.5	+1.9	−22.4 Feb	+1.9 Feb	+6.5	+0.9	2.6 Q4
South Korea	−3.4 Q4	−20.8	−5.9	+0.3	−10.3 Feb	+3.9 Mar	+3.9	−0.6	3.5 Feb
Taiwan	−8.4 Q4	na	−6.5	+0.1	−27.1 Feb	−0.1 Mar	+3.9	−1.0	5.6 Feb
Thailand	−4.3 Q4	−22.2	−4.4	+1.8	−19.8 Feb	−0.2 Mar	+5.3	−1.2	2.4 Jan
Argentina	+4.9 Q4	−1.2	−2.8	+1.5	−14.0 Feb	+6.8 Feb	+8.4	+6.4	7.3 Q4‡‡
Brazil	+1.3 Q4	−13.6	−1.5	+2.7	−17.0 Feb	+5.9 Feb	+4.6	+4.4	8.5 Feb‡‡
Chile	+0.2 Q4	−8.3	+0.4	+2.3	−11.5 Feb	+5.0 Mar	+8.5	+3.7	8.5 Feb†††‡
Colombia	−0.7 Q4	−4.1	−1.0	+1.5	−10.7 Jan	+6.1 Mar	+5.9	+5.0	12.5 Feb‡‡
Mexico	−1.6 Q4	−10.3	−2.6	+1.4	−11.1 Jan	+6.0 Mar	+4.3	+4.8	5.3 Feb‡‡
Venezuela	+3.2 Q4	na	−5.0	−5.4	−25.4 Dec	+28.6 Mar	+29.1	+30.1	6.3 Q4‡‡
Egypt	+5.9 Q3	na	+3.8	+3.9	+7.3 Q3	+13.5 Feb	+12.1	+8.1	8.8 Q4‡‡
Israel	+1.2 Q4	−0.5	+0.4	+2.6	−4.1 Jan	+3.4 Feb	+3.6	+1.8	6.3 Q4
Saudi Arabia	+4.2 2008	na	+0.4	+3.3	na	+6.9 Feb	+7.4	+4.3	na
South Africa	+1.0 Q4	−1.8	−0.8	+3.1	−11.1 Jan	+8.6 Feb	+9.8	+6.0	21.9 Dec‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	−9.7 Q4	na	−8.0	−1.5	−32.7 Feb	+2.0 Mar	+10.9	+1.0	8.6 Jan
Finland	−2.4 Q4	−5.0	−2.8	+0.5	−19.5 Jan†††	+1.7 Feb	+3.7	+0.7	7.1 Feb
Iceland	−1.3 Q4	−3.6	−12.4	−0.9	+0.4 2007	+15.2 Mar	+8.7	+12.5	6.6 Jan‡‡
Ireland	−7.5 Q4	−25.7	−4.8	−1.4	−0.8 Jan	−1.7 Feb	+4.8	−0.7	11.0 Mar
Latvia	−10.3 Q4	na	−12.0	−2.0	−24.2 Feb	+9.6 Feb	+16.7	+3.0	12.3 Jan
Lithuania	−2.2 Q4	−5.5	−8.0	−2.5	na	+8.7 Feb	+10.7	+4.2	9.5 Mar‡‡
Luxembourg	−0.3 Q3	−5.5	−2.9	−0.2	−24.1 Dec	+1.2 Feb	+3.1	+0.5	5.6 Feb‡‡
New Zealand	−2.3 Q4	−2.3	−3.2	+0.5	−0.5 Q3	+3.4 Q4	+3.2	+1.6	4.6 Q4
Peru	+3.2 Jan	na	+3.0	+4.0	−2.7 Jan	+4.8 Mar	+5.5	+4.7	9.4 Feb‡‡
Philippines	+4.5 Q4	+4.1	−0.6	+1.6	−19.9 Jan	+6.4 Mar	+6.4	+1.9	7.7 Q1‡‡
Portugal	−1.8 Q4	−6.2	−3.5	−0.4	−19.1 Jan	+0.2 Feb	+2.9	−1.0	7.8 Q4‡‡
Slovakia	+2.5 Q4	na	+2.0	+2.8	−27.0 Jan	+3.1 Feb	+4.0	+2.8	9.7 Feb‡‡
Slovenia	−0.8 Q4	na	+0.4	+1.2	−17.4 Jan	+1.8 Mar	+6.9	+2.0	7.8 Jan‡‡
Ukraine	+6.9 Q3	na	−6.0	+2.0	−31.6 Feb	+18.1 Mar	+26.2	+16.3	3.2 Feb
Vietnam	+5.5 Q4	na	+0.3	+1.1	+14.5 Feb	+14.8 Feb	+15.7	+4.3	4.6 2007

*% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ‡National definitions.- §RPI inflation

The Economist commodity-price index

Apr 8th 2009
From The Economist print edition

***The Economist* commodity-price index**
2000=100

	Mar 30th	Apr 6th*	% change on one month	% change on one year
Dollar index				
All items	161.5	167.2	+9.0	-34.9
Food	186.9	190.3	+6.5	-24.8
Industrials				
All	128.6	137.2	+13.8	-47.6
Nfa†	112.8	119.7	+14.1	-37.8
Metals	137.3	146.8	+13.7	-51.1
Sterling index				
All items	170.9	171.3	+2.0	-13.5
Euro index				
All items	112.5	115.3	+3.7	-23.8
Gold				
$ per oz	916.10	870.35	-2.7	-6.2
West Texas Intermediate				
$ per barrel	49.39	51.03	+11.6	-53.1

*Provisional †Non-food agriculturals.

The Economist poll of forecasters, April averages

Apr 8th 2009
From The Economist print edition

The Economist poll of forecasters, April averages (previous month's, if changed)

	Real GDP, % change Low/high range		Real GDP, % change average		Consumer prices % increase		Current account % of GDP	
	2009	2010	2009	2010	2009	2010	2009	2010
Australia	−1.6/0.1	0.5/3.1	−0.8 (-0.3)	1.6	2.1	2.3 (2.2)	−5.2 (-5.3)	−5.7 (-5.3)
Belgium	−3.2/−1.5	−1.0/1.2	−2.7 (-1.8)	0.3 (0.9)	0.7 (1.1)	1.5 (1.8)	−1.4 (0.7)	−1.6 (0.7)
Britain	−4.5/−2.3	−1.1/1.7	−3.5 (-3.1)	0.3 (0.5)	1.2 (1.0)	1.7	−1.7 (-2.0)	−1.2 (-1.4)
Canada	−3.0/0.1	nil/2.6	−1.9 (-1.5)	1.6 (1.7)	0.6 (0.5)	1.5 (1.9)	−2.0 (-1.1)	−1.2 (-0.3)
France	−3.4/−1.4	−0.6/1.1	−2.7 (-1.9)	0.3 (0.7)	0.3 (0.4)	1.2 (1.4)	−2.2	−2.5
Germany	−5.4/−2.7	−0.7/1.1	−4.3 (-3.2)	0.3 (0.8)	0.3 (0.4)	0.9 (1.1)	4.5 (5.3)	4.3 (4.9)
Italy	−4.8/−1.9	−0.9/0.8	−3.7 (-2.7)	0.1 (0.5)	0.8 (1.0)	1.4 (1.7)	−2.6 (-2.0)	−2.5 (-2.0)
Japan	−8.7/−4.5	−1.9/1.6	−6.5 (-5.3)	0.4 (0.5)	−1.0 (-0.8)	−0.3 (-0.2)	1.5 (2.0)	1.6 (2.0)
Netherlands	−4.1/−1.5	−0.9/1.3	−2.7 (-1.9)	0.5 (0.8)	0.9 (0.7)	1.0 (1.3)	5.9 (6.2)	5.3 (4.4)
Spain	−3.6/−1.8	−1.9/0.7	−3.1 (-2.5)	−0.5 (0.0)	0.3 (0.6)	1.4 (2.0)	−7.5 (-7.8)	−6.7 (-7.2)
Sweden	−4.9/−1.8	−0.3/1.6	−3.6 (-2.2)	0.7 (0.9)	−0.1	1.0 (1.2)	7.3 (6.7)	7.3 (6.4)
Switzerland	−3.5/−0.9	−1.5/1.0	−2.3 (-1.6)	0.1 (0.7)	−0.2 (-0.1)	0.6 (0.7)	7.5 (8.7)	7.5 (9.2)
United States	−3.9/−1.6	−0.2/2.5	−2.7 (-2.2)	1.4 (1.9)	−0.8 (-0.6)	1.2 (1.5)	−3.3	−3.4
Euro area	−4.3/−2.0	−0.7/0.8	−3.4 (-2.4)	0.2 (0.7)	0.4 (0.6)	1.1 (1.3)	−1.0 (-0.8)	−0.9 (-0.7)

Sources: BNP Paribas, Citigroup, Decision Economics, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, JPMorgan Chase, Morgan Stanley, RBS, Scotiabank, UBS



Trade, exchange rates, budget balances and interest rates

Apr 8th 2009
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2009†	Currency units, per $ Apr 8th	Currency units, per $ year ago	Budget balance % of GDP 2009†	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−797.1 Jan	−673.3 Q4	−3.3	–	–	−13.7	0.50	2.90
Japan	+28.5 Jan	+131.8 Feb	+1.5	101	103	−5.6	0.54	1.42
China	+311.5 Feb	+400.7 Q2	+6.1	6.84	7.00	−3.6	1.22	3.36
Britain	−167.7 Jan	−44.6 Q4	−1.7	0.68	0.51	−11.3	1.63	3.44
Canada	+41.6 Jan	+11.3 Q4	−2.0	1.24	1.02	−2.8	0.39	3.08
Euro area	−53.8 Jan	−90.2 Jan	−1.0	0.75	0.64	−5.3	1.50	3.23
Austria	−3.5 Jan	+16.8 Q3	+1.5	0.75	0.64	−3.4	1.45	4.12
Belgium	+8.2 Jan	−12.1 Dec	−1.4	0.75	0.64	−3.6	1.47	4.02
France	−79.9 Feb	−56.8 Jan	−2.2	0.75	0.64	−6.3	1.45	3.73
Germany	+234.6 Feb	+224.3 Jan	+4.5	0.75	0.64	−3.9	1.45	3.22
Greece	−65.0 Dec	−49.9 Jan	−12.6	0.75	0.64	−4.9	1.45	5.66
Italy	−18.4 Jan	−73.1 Jan	−2.6	0.75	0.64	−4.3	1.45	4.44
Netherlands	+51.7 Jan	+65.3 Q4	+5.9	0.75	0.64	−1.3	1.45	3.86
Spain	−131.7 Jan	−145.2 Jan	−7.5	0.75	0.64	−7.4	1.45	4.14
Czech Republic	+3.5 Feb	−7.3 Jan	−2.3	20.0	16.0	−3.0	2.46	5.67
Denmark	+6.7 Jan	+6.8 Jan	+1.0	5.61	4.75	−2.0	4.50	3.80
Hungary	−0.4 Jan	−13.0 Q4	−3.7	224	161	−2.7	9.83	10.50
Norway	+73.7 Feb	+83.4 Q4	+10.9	6.66	5.06	10.6	2.99	3.89
Poland	−23.1 Jan	−28.1 Jan	−4.9	3.38	2.20	−2.2	4.16	6.09
Russia	+170.8 Jan	+98.9 Q4	−2.2	33.6	23.6	−8.0	13.00	10.60
Sweden	+14.3 Feb	+40.3 Q4	+7.3	8.17	5.97	−3.3	0.25	3.23
Switzerland	+18.4 Feb	+53.3 Q4	+7.5	1.14	1.01	−2.0	0.40	2.20
Turkey	−60.8 Feb	−37.2 Jan	−3.4	1.60	1.29	−4.2	11.61	7.69‡
Australia	+2.2 Feb	−44.1 Q4	−5.2	1.40	1.08	−3.1	3.08	4.61
Hong Kong	−25.1 Feb	+30.6 Q4	+9.1	7.75	7.79	−4.5	0.90	2.02
India	−113.3 Feb	−37.5 Q4	−3.7	50.1	40.0	−7.2	4.49	7.51
Indonesia	+7.2 Feb	+0.6 Q4	−0.4	11,320	9,195	−2.9	9.27	9.26‡
Malaysia	+42.1 Feb	+39.1 Q4	+7.8	3.59	3.19	−6.6	2.09	3.38‡
Pakistan	−19.7 Feb	−15.3 Q4	−5.8	80.5	63.1	−6.4	12.77	19.89‡
Singapore	+14.7 Feb	+27.1 Q4	+15.4	1.51	1.38	−4.1	0.56	1.94
South Korea	−2.8 Mar	+0.7 Feb	+1.2	1,324	976	−3.5	2.41	5.05
Taiwan	+9.8 Mar	+25.0 Q4	+7.9	33.6	30.5	−5.0	0.90	1.44
Thailand	+6.1 Feb	+4.5 Feb	+1.4	35.4	31.7	−4.7	1.72	2.79
Argentina	+13.1 Feb	+7.6 Q4	−0.5	3.67	3.16	−0.8	14.44	na
Brazil	+25.0 Mar	−25.7 Feb	−2.0	2.23	1.70	−1.9	11.16	6.16‡
Chile	+7.6 Feb	−3.4 Q4	−3.4	582	437	−3.5	2.64	3.89‡
Colombia	+2.1 Feb	−6.8 Q4	−4.0	2,417	1,813	−3.3	7.91	6.82‡
Mexico	−16.0 Feb	−2.4 Q4	−3.4	13.6	10.6	−3.2	6.24	7.61
Venezuela	+39.2 Q4	+39.2 Q4	+0.1	6.28	3.70§	−5.3	17.25	6.55‡
Egypt	−26.8 Q4	−1.3 Q4	−0.5	5.62	5.45	−7.0	10.47	3.58‡
Israel	−12.8 Feb	+1.6 Q4	+1.9	4.14	3.61	−5.0	0.59	3.37
Saudi Arabia	+197.4 2008	+124.0 2008	−8.0	3.75	3.75	−8.7	1.15	na
South Africa	−8.0 Feb	−21.0 Q4	−7.0	9.15	7.79	−3.3	8.85	8.53
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*								
Estonia	−3.4 Jan	−1.9 Jan	−6.2	11.8	9.96	−3.4	6.67	na
Finland	+8.8 Jan	+4.8 Jan	+2.4	0.75	0.64	−4.1	1.42	3.84
Iceland	+0.2 Mar	−5.6 Q4	+0.5	127	72.5	−9.5	15.50	na
Ireland	+44.3 Jan	−12.7 Q4	−1.7	0.75	0.64	−12.4	1.45	5.24
Latvia	−6.1 Jan	−4.0 Jan	−5.0	0.53	0.44	−6.0	10.35	na
Lithuania	−6.6 Jan	−5.6 Jan	−7.5	2.60	2.20	−2.5	7.08	na
Luxembourg	−7.9 Dec	+3.0 Q4	na	0.75	0.64	−3.9	1.45	na
New Zealand	−3.5 Feb	−11.3 Q4	−6.3	1.73	1.26	−6.3	3.65	5.22
Peru	+2.2 Feb	−4.2 Q4	−3.9	3.11	2.69	−1.8	6.00	na
Philippines	−7.6 Jan	+4.2 Dec	+2.9	47.8	41.8	−2.6	4.50	na
Portugal	−34.0 Dec	−29.0 Jan	−9.4	0.75	0.64	−4.7	1.45	4.58
Slovakia	−1.5 Jan	−7.0 Jan	−4.8	22.7	20.7	−2.8	1.35	4.63
Slovenia	−4.5 Jan	−3.1 Dec	−4.3	0.75	0.64	−3.4	1.45	na
Ukraine	−16.9 Q4	−12.9 Q4	−3.8	8.05	5.01	−1.0	19.10	na
Vietnam	−12.2 Feb	−7.0 2007	−7.2	17,750	16,109	−8.4	8.30	8.04

*Merchandise trade only. †The Economist poll or Economist Intelligence Unit forecast. ‡Dollar-denominated bonds. §Unofficial exchange rate.

Markets

Apr 8th 2009
From The Economist print edition

Markets

	Index	% change on		
			Dec 31st 2008	
	Apr 7th	one week	in local currency	in $ terms
United States (DJIA)	7,789.6	+2.4	−11.2	−11.2
United States (S&P 500)	815.6	+2.2	−9.7	−9.7
United States (NAScomp)	1,561.6	+2.2	−1.0	−1.0
Japan (Nikkei 225)	8,832.9	+8.9	−0.3	−10.1
Japan (Topix)	832.6	+7.6	−3.1	−12.6
China (SSEA)	2,560.3	+2.8	+33.9	+33.6
China (SSEB, $ terms)	160.6	−0.3	+45.1	+44.8
Britain (FTSE 100)	3,930.5	+0.1	−11.4	−9.1
Canada (S&P TSX)	8,824.8	+1.2	−1.8	−2.1
Euro area (FTSE Euro 100)	668.2	+4.9	−10.5	−14.5
Euro area (DJ STOXX 50)	2,165.6	+4.6	−11.5	−15.5
Austria (ATX)	1,740.3	+2.6	−0.6	−5.1
Belgium (Bel 20)	1,765.5	+1.0	−7.5	−11.7
France (CAC 40)	2,902.3	+3.4	−9.8	−13.9
Germany (DAX)*	4,322.5	+5.8	−10.1	−14.2
Greece (Athex Comp)	1,729.3	+2.7	−3.2	−7.6
Italy (S&P/MIB)	16,561.0	+4.3	−14.9	−18.7
Netherlands (AEX)	227.4	+4.8	−7.5	−11.7
Spain (Madrid SE)	876.2	+7.2	−10.2	−14.3
Czech Republic (PX)	786.9	+5.0	−8.3	−11.5
Denmark (OMXCB)	219.0	+4.3	−3.2	−7.6
Hungary (BUX)	11,987.7	+8.3	−2.1	−16.2
Norway (OSEAX)	267.4	−0.8	−1.0	+4.1
Poland (WIG)	26,172.1	+8.9	−3.9	−15.7
Russia (RTS, $ terms)	740.5	+7.4	+28.8	+17.2
Sweden (OMXS30)†	702.2	+7.5	+6.0	+2.6
Switzerland (SMI)	4,974.2	+0.9	−10.1	−16.4
Turkey (ISE)	26,377.6	+2.4	−1.8	−5.4
Australia (All Ord.)	3,648.5	+3.3	−0.3	+0.5
Hong Kong (Hang Seng)	14,929.0	+10.0	+3.8	+3.8
India (BSE)	10,534.9	+8.5	+9.2	+6.3
Indonesia (JSX)	1,490.9	+4.0	+10.0	+5.9
Malaysia (KLSE)	919.8	+5.4	+4.9	+1.0
Pakistan (KSE)	7,635.9	+11.3	+30.2	+27.9
Singapore (STI)	1,802.4	+6.0	+2.3	−2.5
South Korea (KOSPI)	1,300.1	+7.8	+15.6	+10.0
Taiwan (TWI)	5,576.9	+7.0	+21.5	+18.6
Thailand (SET)	442.6	+2.6	−1.6	−3.5
Argentina (MERV)	1,149.7	+2.1	+6.5	+0.1
Brazil (BVSP)	43,824.0	+7.1	+16.7	+21.9
Chile (IGPA)	12,114.1	+2.1	+7.0	+17.1
Colombia (IGBC)	8,170.4	+1.8	+8.1	+0.5
Mexico (IPC)	20,623.4	+5.1	−7.9	−6.3
Venezuela (IBC)	43,816.7	+0.3	+24.9	+34.4
Egypt (Case 30)	4,798.0	+14.4	+4.4	+2.3
Israel (TA-100)	691.7	+3.8	+22.6	+12.0
Saudi Arabia (Tadawul)	5,052.6	+7.4	+5.2	+5.3
South Africa (JSE AS)	20,492.5	+0.6	−4.7	−3.7
Europe (FTSEurofirst 300)	760.7	+3.7	−8.6	−12.7
World, dev'd (MSCI)	832.8	+3.4	−9.5	−9.5
Emerging markets (MSCI)	615.9	+8.1	+8.6	+8.6
World, all (MSCI)	210.0	+3.9	−7.8	−7.8
World bonds (Citigroup)	762.5	−1.1	−5.9	−5.9
EMBI+ (JPMorgan)	412.9	+2.9	+5.5	+5.5
Hedge funds (HFRX)§	1,029.7	nil	+0.9	+0.9
Volatility, US (VIX)	40.4	44.1	40.0	(levels)
CDSs, Eur (iTRAXX)‡	186.7	−3.5	−7.6	−11.8
CDSs, N Am (CDX)‡	259.3	−1.0	+11.1	+11.1
Carbon trading (EU ETS) €	12.4	+5.9	−23.1	−26.6

*Total return index. †New series. ‡Credit-default swap spreads, basis points. Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CMIE; Danske Bank; EEX; HKMA; Markit; Standard Bank Group; UBS; Westpac. §Apr 6th

Dutch flower auctions

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Kenya was the largest foreign supplier to flower auctions held by FloraHolland, a co-operative which sells 98% of the plants and flowers auctioned in the Netherlands. The country is the world's largest exporter of flowers and plants, with around 60% of the global market. Imports made up less than 15% of what was sold through Dutch flower auctions. But of what was imported, exactly half came from Kenya and Ethiopia. Israel supplied 13.2% of what the co-operative imported. The top export markets were all in Europe. Germany was the single biggest foreign destination for FloraHolland's plants and flowers last year, buying 28.9% of what it sent abroad. Britain and France bought slightly less between them than Germany did.

